UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) of the
Securities Exchange Act of 1934

For the fiscal year ended December 31, 2008

Commission file number 0-11487

LAKELAND FINANCIAL CORPORATION

Indiana	**35-1559596**
(State of incorporation)	(I.R.S. Employer Identification No.)

202 East Center Street, P.O. Box 1387, Warsaw, Indiana 46581-1387
(Address of principal executive offices)

Telephone (574) 267-6144

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, no par value	**NASDAQ Global Select Market**
(Title of class)	(Name of Each Exchange on which Registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such other period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the last sales price quoted on the Nasdaq Global Select Market on June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $218,127,216.

Number of shares of common stock outstanding at February 25, 2009: 12,414,130

DOCUMENTS INCORPORATED BY REFERENCE

Part III - Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 14, 2009 are incorporated by reference into Part III hereof.

LAKELAND FINANCIAL CORPORATION
Annual Report on Form 10-K
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PART I

ITEM 1. BUSINESS

The Company was incorporated under the laws of the State of Indiana on February 8, 1983. As used herein, the term “Company” refers to Lakeland Financial Corporation, or if the context dictates, Lakeland Financial Corporation and its wholly-owned subsidiary, Lake City Bank (the “Bank”), an Indiana state bank headquartered in Warsaw, Indiana. Also included in the consolidated financial statements prior to December 27, 2006 is LCB Investments, Limited, a wholly-owned subsidiary of Lake City Bank, which is a Bermuda corporation that managed a portion of the Bank’s investment portfolio. On December 27, 2006, all securities were transferred to Lake City Bank from LCB Investments, Limited, and LCB Investments, Limited was dissolved. On December 18, 2006, LCB Investments II, Inc. was formed as a wholly-owned subsidiary of Lake City Bank incorporated in Nevada and it began managing a portion of the Bank’s investment portfolio in January 2007. On December 21, 2006, LCB Funding, Inc., a real estate investment trust, incorporated in Maryland was formed as a wholly-owned subsidiary of LCB Investments II. All intercompany transactions and balances are eliminated in consolidation.

General

Company’s Business. The Company is a bank holding company as defined in the Bank Holding Company Act of 1956, as amended. The Company owns all of the outstanding stock of Lake City Bank, Warsaw, Indiana, a full-service commercial bank organized under Indiana law. The Bank recognizes a wholly-owned subsidiary, LCB Investments II, which manages a portion of the Bank’s investment portfolio. The Company conducts no business except that incident to its ownership of the outstanding stock of the Bank and the operation of the Bank.

The Bank’s deposits are insured by the Federal Deposit Insurance Corporation. The Bank’s activities cover all phases of commercial banking, including checking accounts, savings accounts, time deposits, the sale of securities under agreements to repurchase, commercial, real estate and agricultural lending, direct and indirect consumer lending, commercial and residential real estate mortgage lending, retail and merchant credit card services, corporate cash management services, retirement services, bond administration, safe deposit box service and trust and brokerage services.

The Bank’s main banking office is located at 202 East Center Street, Warsaw, Indiana. As of December 31, 2008, the Bank had 43 offices in twelve counties throughout northern Indiana.

Bank’s Business. The Bank was originally organized in 1872 and has continuously operated under the laws of the State of Indiana since its organization. The Bank’s activities cover all phases of commercial banking, including checking accounts, savings accounts, time deposits, the sale of securities under agreements to repurchase, commercial, real estate and agricultural lending, direct and indirect consumer lending, commercial and residential real estate mortgage lending, retail and merchant credit card services, corporate cash management services, retirement services, bond administration, safe deposit box services and trust and brokerage services. The interest rates for both deposits and loans, as well as the range of services provided, are consistent with those of most banks competing within the Bank’s service area.

The Bank competes for loans principally through a high degree of customer contact, timely loan review and approval, market-driven competitive loan pricing and the Bank’s reputation throughout the region. The Bank believes that its convenience, quality service and high touch, responsive approach to banking enhances its ability to compete favorably in attracting and retaining individual and business customers. The Bank actively solicits deposit-related customers and competes for customers by offering personal attention, professional service and competitive interest rates.

Market Overview. While the Company operates in twelve counties, it currently defines operations by four primary geographical markets. They are the South Region, which includes Kosciusko County and portions of contiguous counties; the North Region, which includes portions of Elkhart and St. Joseph Counties, the Central Region, which includes portions of Elkhart County and contiguous counties; and the East Region, which includes Allen and contiguous counties. The South Region includes the city of Warsaw, which is the location of the Company’s headquarters. The Company has had a presence in this region since 1872. It has been in the North and Central Regions, which includes the cities of Elkhart, South Bend and Goshen, since 1990. The Company opened its first office in the East Region, which includes the cities of Fort Wayne and Auburn, in 1999. The Company also operates a loan production office in Indianapolis, which is staffed with commercial lending officers and was opened in 2006.

The Company believes that these are well-established and fairly diverse economic regions. The Company has sought to diversify expansion and industry throughout its markets, which include a mix of industrial and service companies with no business or industry concentrations within individual markets and combined. Furthermore, no single industry or employer dominates any of the markets. Fort Wayne represents the largest population center served by the Company's full-service branch system with a population of 206,000, according to 2000 U.S. Census Bureau data. South Bend, with a 2000 population of 108,000, is the second largest city served by the Company. Elkhart, with a 2000 population of 52,000, is the third largest city that the Company currently serves. As a result of the presence of offices in twelve counties that are widely dispersed, no single city or industry represents an undue concentration. In addition, the Indianapolis market represents a substantial future opportunity given its position as the largest metropolitan market in the state.

Expansion Strategy. The Company's expansion strategy is driven primarily by the potential for increased penetration in existing markets where opportunities for market share growth exists. Additionally, management considers growth in new markets with a close geographic proximity to its current operations. These markets are considered when the Company believes they would be receptive to its strategic plan to deliver broad based financial services with a commitment to local communities. When entering new markets, the Company believes it is critical to attract experienced local management with a similar philosophy in order to provide a basis for success. Since the early 1990's, the Company has focused on growth through de novo branching in locations that management believes have potential for creating new market opportunities or for further penetrating existing markets. The Company opened a new branch facility in Fort Wayne, Indiana in late 2007 to house the Company's Fort Wayne based Wealth Advisory Services and to serve the southwestern market of Fort Wayne. The location is a full-service branch facility. As noted earlier, the Company entered the Indianapolis market in 2006 and anticipates that it will expand in the future with full-service banking locations, although no timetable has been established.

The Company also considers opportunities beyond current markets when the Company's Board of Directors and management believes that the opportunity will provide a desirable strategic fit without posing undue risk. The Company does not currently have any definitive understandings or agreements for any acquisitions or de novo expansion.

Products and Services. The Company is a full-service commercial bank and provides commercial, retail, wealth advisory and investment management services to its customers. Commercial products include commercial loans and technology-driven solutions to commercial customers' treasury management needs such as internet business banking and on-line treasury management services in addition to retirement services, bond administration and health savings account services. Retail banking clients are provided a wide array of traditional retail banking services, including lending, deposit and investment services. Retail lending programs are focused on mortgage loans, home equity lines of credit and traditional retail installment loans, including indirect automotive financing. The Company provides credit card services to retail and commercial customers through an outsourced retail card program and merchant processing activity. The Company also has an Honors Private Banking program that is positioned to serve the more financially sophisticated customer with a menu including investment management and trust services, executive mortgage programs and access to financial planning seminars and programs. The Company provides wealth advisory clients with traditional personal and corporate trust and investment services. The Company also provides retail brokerage services, including an array of financial and investment products such as annuities and life insurance.

Competition

Within its four primary geographical markets, the Bank competes with other local and regional banks in addition to major banks for large commercial deposit and loan accounts. The Bank is presently subject to an aggregate maximum loan limit to any single account pursuant to Indiana law of $30.5 million. The Bank currently enforces an internal limit of $20.0 million, which is less than the amount permitted by law. This maximum might occasionally limit the Bank from providing loans to those businesses or personal accounts whose borrowings periodically exceed this amount. In the event this were to occur, the Bank maintains correspondent relationships with other financial institutions. The Bank may participate with other banks in the placement of large borrowings in excess of its lending limit, although the Bank typically does not participate in such arrangements. The Bank is also a member of the Federal Home Loan Bank of Indianapolis in order to broaden its mortgage lending and investment activities and to provide additional funding, as necessary, to support these activities.

In addition to the banks located within its service area, the Bank also competes with savings and loan associations, credit unions, farm credit services, finance companies, personal loan companies, insurance companies, money market funds, and other non-depository financial intermediaries. Also, financial intermediaries such as

money market mutual funds and large retailers are not subject to the same regulations and laws that govern the operation of traditional depository institutions and accordingly may have an advantage in competing for funds.

Foreign Operations

The Company has no investments with any foreign entity other than one nominal demand deposit account, which is maintained with a Canadian bank in order to facilitate the clearing of checks drawn on banks located in other countries. There are no foreign loans.

Employees

At December 31, 2008, the Company, including its subsidiaries, had 446 full-time equivalent employees. Benefit programs include a 401(k) plan, group medical insurance, group life insurance and paid vacations. The Company also maintained a defined benefit pension plan which, effective April 1, 2000, was frozen and employees can no longer accrue new benefits under that plan. The Company also has an equity incentive plan under which stock-based incentives may be granted to employees and directors. The Company also has an employee deferred compensation plan available to certain employees. The Bank is not a party to any collective bargaining agreement, and employee relations are considered good.

Forward-looking Statements

This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company’s management and on information currently available to management, are generally identifiable by the use of words such as “believe,” “expect,” “anticipate,” “plan,” “intend,” “estimate,” “may,” “will,” “would,” “could,” “should” or other similar expressions. Additionally, all statements in this document, including forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

The Company’s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries are detailed in the “Risk Factors” section included under Item 1a. of Part I of this Form 10-K. In addition to the risk factors described in that section, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These additional factors include, but are not limited to, the following:

- Changes in accounting standards and practices, as may be adopted by state and federal regulatory agencies, the Financial Accounting Standards Board and the Securities and Exchange Commission.

- Changes in state or federal tax laws.

- The costs, effects and outcomes of existing or future litigation.

- The economic impact of past and any future terrorist attacks, acts of war or threats thereof and the response of the United States to any such threats and attacks.

- The ability of the Company to manage the risks associated with the foregoing as well as anticipated.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. For additional information regarding these and other risks, uncertainties and other factors, please review the disclosure in this annual report under “Risk Factors”.

Internet Website

The Company maintains an internet site at www.lakecitybank.com. The Company makes available free of charge on this site its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission. The Company's Articles of Incorporation, Bylaws, Code of Conduct and the charters of its various committees of the Board of Directors are also available on the website.

SUPERVISION AND REGULATION

General

Financial institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, the growth and earnings performance of the Company may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory authorities, including the Indiana Department of Financial Institutions (the "DFI"), the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the Federal Deposit Insurance Corporation (the "FDIC"). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities and securities laws administered by the Securities and Exchange Commission (the "SEC") and state securities authorities have an impact on the business of the Company. The effect of these statutes, regulations and regulatory policies may be significant, and cannot be predicted with a high degree of certainty.

Federal and state laws and regulations generally applicable to financial institutions regulate, among other things, the scope of business, the kinds and amounts of investments, reserve requirements, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers and consolidations and the payment of dividends. This system of supervision and regulation establishes a comprehensive framework for the respective operations of the Company and its subsidiaries and is intended primarily for the protection of the FDIC-insured deposits and depositors of the Bank, rather than shareholders. In addition to this generally applicable regulatory framework, recent turmoil in the credit markets prompted the enactment of unprecedented legislation that has allowed the U.S. Treasury to make equity capital available to qualifying financial institutions to help restore confidence and stability in the U.S. financial markets, which imposes additional requirements on institutions in which the U.S. Treasury Department invests.

The following is a summary of the material elements of the regulatory framework that applies to the Company and its subsidiaries. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. As such, the following is qualified in its entirety by reference to applicable law. Any change in statutes, regulations or regulatory policies may have a material effect on the business of the Company and its subsidiaries.

The Company

General. The Company, as the sole shareholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation by, the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). In accordance with Federal Reserve policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where the Company might not otherwise do so. Under the BHCA, the Company is subject to periodic examination by the Federal Reserve. The Company is required to file with the Federal Reserve periodic reports of the Company's operations and such additional information regarding the Company and its subsidiaries as the Federal Reserve may require. The Company is also subject to regulation by the DFI under Indiana law.

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its insured depository institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state depository institutions or their holding companies) and state laws that require that

the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve to be “so closely related to banking ... as to be a proper incident thereto.” This authority would permit the Company to engage in a variety of banking-related businesses, including the ownership and operation of a thrift, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development), and mortgage banking and brokerage. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. As of the date of this filing, the Company has not applied for approval to operate as a financial holding company.

Federal law also prohibits any person or company from acquiring “control” of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. “Control” is conclusively presumed to exist upon the acquisition of 25% or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10% and 24.99% ownership.

Capital Requirements. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines. If capital levels fall below the minimum required levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses.

The Federal Reserve’s capital guidelines establish the following minimum regulatory capital requirements for bank holding companies: (i) a risk-based requirement expressed as a percentage of total assets weighted according to risk; and (ii) a leverage requirement expressed as a percentage of total assets. The risk-based requirement consists of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. The leverage requirement consists of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly rated companies, with a minimum requirement of 4% for all others. For purposes of these capital standards, Tier 1 capital consists primarily of permanent stockholders’ equity less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total capital consists primarily of Tier 1 capital plus certain other debt and equity instruments that do not qualify as Tier 1 capital and a portion of the company’s allowance for loan and lease losses.

The risk-based and leverage standards described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve’s capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (*i.e.*, Tier 1 capital less all intangible assets), well above the minimum levels. As of December 31, 2008, the Company had regulatory capital in excess of the Federal Reserve’s minimum requirements.

Emergency Economic Stabilization Act of 2008. Recent events in the U.S. and global financial markets, including the deterioration of the worldwide credit markets, have created significant challenges for financial institutions throughout the country. Dramatic declines in the housing market during the past year, marked by falling home prices and increasing levels of mortgage foreclosures, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. In addition, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers, including other financial institutions, as a result of concern about the stability of the financial markets and the strength of counterparties.

In response to the crises affecting the U.S. banking system and financial markets and to bolster the distressed economy and improve consumer confidence in the financial system, on October 3, 2008, the U.S. Congress passed, and the President signed into law, the Emergency Economic Stabilization Act of 2008 (the “EESA”). The EESA authorizes the Secretary of the United States Department of Treasury (“Treasury”) to implement various temporary emergency programs designed to strengthen the capital positions of financial institutions and stimulate the availability of credit within the U.S. financial system. Financial institutions participating in certain of the programs established under the EESA will be required to adopt Treasury’s standards for executive compensation and corporate governance.

The TARP Capital Purchase Program. On October 14, 2008, Treasury announced that it will provide Tier 1 capital (in the form of perpetual preferred stock) to eligible financial institutions. This program, known as the TARP Capital Purchase Program (the “CPP”), allocates $250 billion from the $700 billion authorized by the EESA to Treasury for the purchase of senior preferred shares from qualifying financial institutions (the “CPP Preferred Stock”). Under the program, eligible institutions are able to sell equity interests to the Treasury in amounts equal to between 1% and 3% of the institution’s risk-weighted assets. The CPP Preferred Stock will generally be non-voting and will pay dividends at the rate of 5% per annum for the first five years and thereafter at a rate of 9% per annum. In conjunction with the purchase of the CPP Preferred Stock, the Treasury will receive warrants to purchase common stock from the participating public institutions with an aggregate market price equal to 15% of the preferred stock investment. Participating financial institutions will be required to adopt Treasury’s standards for executive compensation and corporate governance for the period during which Treasury holds equity issued under the CPP.

Pursuant to the CPP, on February 27, 2009, The Company entered into a Letter Agreement with Treasury, pursuant to which the Company issued (i) 56,044 shares of the Company’s Fixed Rate Cumulative Perpetual Preferred Stock, Series A and (ii) a warrant to purchase 396,538 shares of the Company’s common stock, no par value, for an aggregate purchase price of $56,044,000 in cash. The Company also expects that its federal regulators and the Treasury will maintain significant oversight over the Company as a participating institution, to evaluate how it uses the capital provided and to ensure that it strengthens its efforts to help its borrowers avoid foreclosure, which is one of the core aspects of the EESA.

Dividend Payments. The Company’s ability to pay dividends to its shareholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As an Indiana corporation, the Company is subject to the limitations of the Indiana General Business Corporation Law, which prohibit the Company from paying dividends if the Company is, or by payment of the dividend would become, insolvent, or if the payment of dividends would render the Company unable to pay its debts as they become due in the usual course of business. Additionally, policies of the Federal Reserve caution that a bank holding company should not pay cash dividends unless its net income available to common shareholders over the past year has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with its capital needs, asset quality, and overall financial condition. The Federal Reserve also possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. Further, if the Company participates in the CPP, the Company anticipates that the terms of the CPP Preferred Stock will provide that no dividends on any common or preferred stock that ranks equal to or junior to the CPP Preferred Stock may be paid unless and until all accrued and unpaid dividends for all past dividend periods on the CPP Preferred Stock have been fully paid.

Federal Securities Regulation. The Company’s common stock is registered with the SEC under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the ”Exchange Act”). Consequently, the Company is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

The Bank

General. The Bank is an Indiana-chartered bank, the deposit accounts of which are insured by the FDIC’s Deposit Insurance Fund (“DIF”) to the maximum extent provided under federal law and FDIC regulations. The Bank is also a member of the Federal Reserve System (“member bank”). As an Indiana-chartered, FDIC-insured member bank, the Bank is presently subject to the examination, supervision, reporting and enforcement requirements of the DFI, the chartering authority for Indiana banks, the Federal Reserve, as the primary federal regulator of member banks, and the FDIC, as administrator of the DIF.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. Under the regulations of the FDIC, as presently in effect, insurance assessments range from 0.12% to 0.50% of total deposits for the first quarter 2009 assessment period only (subject to the application of assessment credits, if any, issued by the FDIC in 2008). Effective April 1, 2009, insurance assessments will range from 0.07% to 0.78%, depending on an institution's risk classification, as well as its unsecured debt, secured liability and brokered deposits. In addition, under an interim rule, the FDIC plans to impose a 20 basis point emergency special assessment on insured depository institutions on June 30, 2009. The emergency special assessment will be collected on September 30, 2009. The interim rule also authorizes the FDIC to impose an additional emergency special assessment after June 30, 2009, of up to 10 basis points, if necessary to maintain public confidence in federal deposit insurance.

FDIC Temporary Liquidity Guarantee Program. In connection with the recently enacted EESA and in conjunction with the Treasury's actions to address the current credit and liquidity crisis in financial markets, the FDIC announced the Temporary Liquidity Guarantee Program, which will temporarily provide to participating institutions unlimited deposit insurance coverage for non-interest bearing transaction accounts maintained at FDIC insured institutions (the "transaction account guarantee program"), and provide a limited guarantee on certain newly-issued senior unsecured debt (the "debt guarantee program"). For an initial 30-day period, all eligible financial institutions were automatically covered under this program without incurring any fees. Institutions that did not opt out by December 5, 2008, will be subject to the following potential assessments for participation: (i) for the debt guarantee program, between 50 and 100 basis points per annum for eligible senior unsecured debt (depending on the maturity date) issued between October 14, 2008 and June 30, 2009; and (ii) for the transaction account guarantee program, 10 basis points per annum on amounts in excess of $250,000 in non-interest bearing transaction accounts from November 13, 2008 through and including December 31, 2009. The Bank decided to continue to participate in these programs and did not opt out. As a result, the Bank expects to incur fees associated with the programs.

FICO Assessments. The Financing Corporation ("FICO") is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Federal Savings and Loan Insurance Corporation Recapitalization Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year non-callable bonds of approximately $8.2 billion that mature by 2019. Since 1996, federal legislation has required that all FDIC-insured depository institutions pay assessments to cover interest payments on FICO's outstanding obligations. These FICO assessments are in addition to amounts assessed by the FDIC for deposit insurance. During the year ended December 31, 2008, the FICO assessment rate was approximately 0.01% of deposits.

Supervisory Assessments. All Indiana banks are required to pay supervisory assessments to the DFI to fund the operations of the DFI. The amount of the assessment is calculated on the basis of the bank's total assets. During the year ended December 31, 2008, the Bank paid supervisory assessments to the DFI totaling $178,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. Under federal regulations, the Bank is subject to the following minimum capital standards: (i) a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with a minimum requirement of at least 4% for all others; and (ii) a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to total risk-weighted assets of 4%. In general, the components of Tier 1 capital and total capital are the same as those for bank holding companies discussed above.

The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, federal regulations provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

Further, federal law and regulations provide various incentives for financial institutions to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a financial institution that is "well-capitalized" may qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities and may qualify for expedited processing of other required notices or applications. Additionally, one of the criteria that determines a bank holding company's eligibility to operate as a financial holding company is a requirement that all of its financial institution subsidiaries be "well-capitalized." Under the

regulations of the Federal Reserve, in order to be “well-capitalized” a financial institution must maintain a ratio of total capital to total risk-weighted assets of 10% or greater, a ratio of Tier 1 capital to total risk-weighted assets of 6% or greater and a ratio of Tier 1 capital to total assets of 5% or greater.

Federal law also provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators’ powers depends on whether the institution in question is “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized,” in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators’ corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution’s asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

As of December 31, 2008: (i) the Bank was not subject to a directive from the Federal Reserve to increase its capital to an amount in excess of the minimum regulatory capital requirements; (ii) the Bank exceeded its minimum regulatory capital requirements under Federal Reserve capital adequacy guidelines; and (iii) the Bank was “well-capitalized,” as defined by Federal Reserve regulations.

Dividend Payments. The primary source of funds for the Company is dividends from the Bank. Indiana law prohibits the Bank from paying dividends in an amount greater than its undivided profits. The Bank is required to obtain the approval of the DFI for the payment of any dividend if the total of all dividends declared by the Bank during the calendar year, including the proposed dividend, would exceed the sum of the Bank’s net income for the year to date combined with its retained net income for the previous two years. Indiana law defines “retained net income” to mean the net income of a specified period, calculated under the consolidated report of income instructions, less the total amount of all dividends declared for the specified period. The Federal Reserve Act also imposes limitations on the amount of dividends that may be paid by state member banks, such as the Bank. Without Federal Reserve approval, a state member bank may not pay dividends in any calendar year that, in the aggregate, exceed the bank’s calendar year-to-date net income plus the bank’s retained net income for the two preceding calendar years.

The payment of dividends by any financial institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2008. As of December 31, 2008, approximately $2.0 million was available to be paid as dividends by the Bank. Notwithstanding the availability of funds for dividends, however, the Federal Reserve may prohibit the payment of any dividends by the Bank if the Federal Reserve determines such payment would constitute an unsafe or unsound practice.

Insider Transactions. The Bank is subject to certain restrictions imposed by federal law on extensions of credit to the Company, on investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by the Bank. Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to directors and officers of the Company, to principal shareholders of the Company and to “related interests” of such directors, officers and principal shareholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or the Bank or a principal shareholder of the Company may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution’s primary federal regulator may require the

institution to submit a plan for achieving and maintaining compliance. If an institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the institution's rate of growth, require the institution to increase its capital, restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal banking regulators, including cease and desist orders and civil money penalty assessments.

Branching Authority. Indiana banks, such as the Bank, have the authority under Indiana law to establish branches anywhere in the State of Indiana, subject to receipt of all required regulatory approvals.

Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) is permitted only in those states the laws of which expressly authorize such expansion.

State Bank Investments and Activities. The Bank generally is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Indiana law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member. These restrictions have not had, and are not currently expected to have, a material impact on the operations of the Bank.

Federal Reserve System. Federal Reserve regulations, as presently in effect, require depository institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts), as follows: for transaction accounts aggregating $44.4 million or less, the reserve requirement is 3% of total transaction accounts; and for transaction accounts aggregating in excess of $44.4 million, the reserve requirement is $1.023 million plus 10% of the aggregate amount of total transaction accounts in excess of $44.4 million. The first $10.3 million of otherwise reservable balances are exempted from the reserve requirements. These reserve requirements are subject to annual adjustment by the Federal Reserve. The Bank is in compliance with the foregoing requirements.

INDUSTRY SEGMENTS

The Company's chief decision-makers monitor and evaluate financial performance on a Company-wide basis. All of the Company's financial service operations are similar and considered by management to be aggregated into one reportable operating segment. While the Company has assigned certain management responsibilities by region and business-line, the Company's chief decision-makers monitor and evaluate financial performance on a Company-wide basis. The majority of the Company's revenue is from the business of banking and the Company's assigned regions have similar economic characteristics, products, services and customers. Accordingly, all of the Company's operations are considered by management to be aggregated in one reportable operating segment.

GUIDE 3 INFORMATION

On the pages that follow are tables that set forth selected statistical information relative to the business of the Company. This data should be read in conjunction with the consolidated financial statements, related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set forth in Items 7 & 8, below, herein incorporated by reference.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL
(in thousands of dollars)

	2008			2007		
	Average Balance	Interest Income	Yield (1)	Average Balance	Interest Income	Yield (1)
ASSETS						
Earning assets:						
Loans:						
Taxable (2)(3)	$ 1,662,355	$ 99,538	5.99%	$ 1,401,480	$ 102,840	7.34%
Tax exempt (1)	2,669	147	5.51	2,588	166	6.41
Investments: (1)						
Available for sale	368,578	19,731	5.35	306,293	15,140	4.94
Short-term investments	12,136	171	1.41	17,412	863	4.96
Interest bearing deposits	2,045	49	2.40	1,486	68	4.58
Total earning assets	2,047,783	119,636	5.84%	1,729,259	119,077	6.89%
Nonearning assets:						
Cash and due from banks	41,302	0		44,565	0	
Premises and equipment	28,200	0		26,042	0	
Other nonearning assets	70,986	0		54,220	0	
Less allowance for loan losses	(17,597)	0		(15,045)	0	
Total assets	$ 2,170,674	$ 119,636		$ 1,839,041	$ 119,077	

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 35 percent tax rate for 2008 and 2007. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the TEFRA adjustment applicable to nondeductible interest expenses.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 2008 and 2007, are included as taxable loan interest income.

(3) Nonaccrual loans are included in the average balance of taxable loans.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL (Cont.)
(in thousands of dollars)

	2007			2006		
	Average Balance	Interest Income	Yield (1)	Average Balance	Interest Income	Yield (1)
ASSETS						
Earning assets:						
Loans:						
Taxable (2)(3)	$ 1,401,480	$ 102,840	7.34%	$ 1,264,490	$ 91,946	7.27%
Tax exempt (1)	2,588	166	6.41	5,995	328	5.47
Investments: (1)						
Available for sale	306,293	15,140	4.94	293,931	13,609	4.63
Short-term investments	17,412	863	4.96	12,896	647	5.02
Interest bearing deposits	1,486	68	4.58	3,269	151	4.62
Total earning assets	1,729,259	119,077	6.89%	1,580,581	106,681	6.75%
Nonearning assets:						
Cash and due from banks	44,565	0		56,235	0	
Premises and equipment	26,042	0		24,750	0	
Other nonearning assets	54,220	0		50,597	0	
Less allowance for loan losses	(15,045)	0		(13,692)	0	
Total assets	$ 1,839,041	$ 119,077		$ 1,698,471	$ 106,681	

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 35 percent tax rate for 2007 and 2006. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the TEFRA adjustment applicable to nondeductible interest expenses.

(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the years ended December 31, 2007 and 2006, are included as taxable loan interest income.

(3) Nonaccrual loans are included in the average balance of taxable loans.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL (Cont.)
(in thousands of dollars)

	2008			2007		
	Average Balance	Interest Expense	Yield	Average Balance	Interest Expense	Yield
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Savings deposits	$ 64,877	$ 64	0.10%	$ 67,104	$ 133	0.20%
Interest bearing checking accounts	495,057	9,979	2.02	425,753	14,854	3.49
Time deposits:						
In denominations under $100,000	329,783	13,924	4.22	295,328	14,289	4.84
In denominations over $100,000	528,316	20,613	3.90	462,056	24,338	5.27
Miscellaneous short-term borrowings	278,451	5,620	2.02	177,343	7,239	4.08
Long-term borrowings and subordinated debentures (1)	86,230	5,016	5.82	30,972	2,628	8.49
Total interest bearing liabilities	1,782,714	55,216	3.10%	1,458,556	63,481	4.35%
Noninterest bearing liabilities and stockholders' equity:						
Demand deposits	219,762	0		226,484	0	
Other liabilities	17,138	0		16,234	0	
Stockholders' equity	151,060	0		137,767	0	
Total liabilities and stockholders' equity	$ 2,170,674	$ 55,216		$ 1,839,041	$ 63,481	

(1) Long-term borrowings and subordinated debentures interest expense was reduced by interest capitalized on construction in process for 2007.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL (Cont.)
(in thousands of dollars)

	2007			2006		
	Average Balance	Interest Expense	Yield	Average Balance	Interest Expense	Yield
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Savings deposits	$ 67,104	$ 133	0.20%	$ 67,818	$ 143	0.21%
Interest bearing checking accounts	425,753	14,854	3.49	405,209	12,789	3.16
Time deposits:						
In denominations under $100,000	295,328	14,289	4.84	264,087	10,787	4.08
In denominations over $100,000	462,056	24,338	5.27	430,378	21,382	4.97
Miscellaneous short-term borrowings	177,343	7,239	4.08	144,637	5,594	3.87
Long-term borrowings and subordinated debentures (1)	30,972	2,628	8.49	30,973	2,529	8.17
Total interest bearing liabilities	1,458,556	63,481	4.35%	1,343,102	53,224	3.96%
Noninterest bearing liabilities and stockholders' equity:						
Demand deposits	226,484	0		219,997	0	
Other liabilities	16,234	0		13,418	0	
Stockholders' equity	137,767	0		121,954	0	
Total liabilities and stockholders' equity	$ 1,839,041	$ 63,481		$ 1,698,471	$ 53,224	
Net interest differential - yield on average daily earning assets		$ 55,596	3.22%		$ 53,457	3.38%

(1) Long-term borrowings and subordinated debentures interest expense was reduced by interest capitalized on construction in process for 2007.

ANALYSIS OF CHANGES IN INTEREST DIFFERENTIALS
(fully taxable equivalent basis)
(in thousands of dollars)

YEAR ENDED DECEMBER 31,

	2008 Over (Under) 2007 (1)			2007 Over (Under) 2006 (1)		
	Volume	Rate	Total	Volume	Rate	Total
INTEREST AND LOAN FEE INCOME (2)						
Loans:						
Taxable	$ 17,372	$ (20,674)	$ (3,302)	$ 10,045	$ 849	$ 10,894
Tax exempt	5	(24)	(19)	(211)	49	(162)
Investments:						
Available for sale	3,260	1,331	4,591	587	944	1,531
Short-term investments	(206)	(486)	(692)	224	(8)	216
Interest bearing deposits	20	(39)	(19)	(82)	(1)	(83)
Total interest income	20,451	(19,892)	559	10,563	1,833	12,396
INTEREST EXPENSE						
Savings deposits	(4)	(65)	(69)	(1)	(9)	(10)
Interest bearing checking accounts	2,134	(7,009)	(4,875)	671	1,394	2,065
Time deposits:						
In denominations under $100,000	1,566	(1,931)	(365)	1,368	2,134	3,502
In denominations over $100,000	3,168	(6,893)	(3,725)	1,626	1,330	2,956
Miscellaneous short-term borrowings	3,021	(4,640)	(1,619)	1,321	324	1,645
Long-term borrowings and subordinated debentures	3,435	(1,047)	2,388	0	99	99
Total interest expense	13,320	(21,585)	(8,265)	4,985	5,272	10,257
INCREASE (DECREASE) IN INTEREST DIFFERENTIALS	$ 7,131	$ 1,693	$ 8,824	$ 5,578	$ (3,439)	$ 2,139

(1) The earning assets and interest bearing liabilities used to calculate interest differentials are based on average daily balances for 2008, 2007 and 2006. The changes in volume represent “changes in volume times the old rate”. The changes in rate represent “changes in rate times old volume”. The changes in rate/volume were also calculated by “change in rate times change in volume” and allocated consistently based upon the relative absolute values of the changes in volume and changes in rate.

(2) Tax exempt income was converted to a fully taxable equivalent basis at a 35 percent tax rate for 2008, 2007 and 2006. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the TEFRA adjustment applicable to nondeductible interest expense.

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ANALYSIS OF SECURITIES
(in thousands of dollars)

The amortized cost and the fair value of securities as of December 31, 2008, 2007 and 2006 were as follows:

	2008		2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale:						
U.S. Treasury securities	$ 1,001	$ 1,025	$ 1,201	$ 1,206	$ 1,002	$ 965
U.S. Government agencies	15,453	15,685	18,539	18,555	31,249	30,525
Mortgage-backed securities	332,682	314,669	251,158	250,495	213,053	210,000
State and municipal securities	55,081	55,651	56,613	57,501	53,824	54,701
Total debt securities available for sale	$ 404,217	$ 387,030	$ 327,511	$ 327,757	$ 299,128	$ 296,191

At year-end 2008, there were no holdings of securities of any one issuer, other than the U.S. Government, government agencies and government sponsored agencies, in an amount greater than 10% of stockholders’ equity with the exception of Residential Accredit Loans, Inc., which had a book value of $21.3 million and a market value of $15.8 million, Countrywide Home Loans Alternative Loan Trust, which had a book value of $19.9 million and a market value of $15.1 million and Chase Mortgage Finance Trust, which had a book value of $17.4 million and a market value of $7.5 million. These are all Alt A or Whole Loan securities in the Super Senior tranches, which are the highest rated tranches with very high credit standards. In addition, the collateral of the Alt A or Whole Loan securities purchased must meet certain criteria set by the Company’s Asset Liability Management Committee including maximum loan-to-value and minimum FICO scores, consist of only fixed-rate mortgages and must be AAA rated at the time of purchase. See Note 2 for more information on these investments. At year-end 2007, there were no holdings of securities of any one issuer, other than the U.S. Government, government agencies and government sponsored agencies, in an amount greater than 10% of stockholders’ equity with the exception of Residential Accredit Loans, Inc., which had a book value of $22.6 million and a market value of $22.3 million. At year-end 2006, there were no holdings of securities of any one issuer, other than the U.S. Government, government agencies and government sponsored agencies, in an amount greater than 10% of stockholders’ equity.

ANALYSIS OF SECURITIES (cont.)
(fully tax equivalent basis)
(in thousands of dollars)

The weighted average yields and maturity distribution for debt securities portfolio at December 31, 2008, were as follows:

	Within One Year	After One Year Within Five Years	After Five Years Within Ten Years	Over Ten Years
Securities available for sale:				
US Treasury securities				
Fair value	$ 1,025	$ 0	$ 0	$ 0
Yield	3.38%	0%	0%	0%
Government agencies and corporations				
Fair value	10,943	4,742	0	0
Yield	4.61%	3.88%	0%	0%
Mortgage-backed securities				
Fair value	177	18,653	82,152	213,687
Yield	6.47%	3.72%	4.87%	5.25%
State and municipal securities				
Fair value	578	3,442	33,618	18,013
Yield	3.63%	4.15%	4.54%	4.35%
Total debt securities available for sale:				
Fair value	$ 12,723	$ 26,837	$ 115,770	$ 231,700
Yield	4.49%	3.81%	4.77%	5.18%

ANALYSIS OF LOAN PORTFOLIO
Analysis of Loans Outstanding
(in thousands of dollars)

The Company segregates its loan portfolio into four basic segments: commercial (including agricultural loans), residential real estate mortgages, installment and personal line of credit loans (including credit card loans). The loan portfolio as of December 31, 2008, 2007, 2006, 2005 and 2004 was as follows:

	2008	2007	2006	2005	2004
Commercial loans:					
Taxable	$ 1,522,523	$ 1,238,623	$ 1,081,420	$ 960,046	$ 784,591
Tax exempt	10,493	1,971	4,991	4,512	6,369
Total commercial loans	1,533,016	1,240,594	1,086,411	964,558	790,960
Residential real estate mortgage loans	117,230	124,107	109,176	74,820	54,361
Installment loans	51,174	49,185	52,548	67,964	53,138
Line of credit and credit card loans	132,147	109,760	105,762	91,426	104,927
Subtotal loans	1,833,567	1,523,646	1,353,897	1,198,768	1,003,386
Less: Allowance for loan losses	(18,860)	(15,801)	(14,463)	(12,774)	(10,754)
Net deferred loan (fees)/costs	(233)	74	(60)	(38)	(167)
Net loans	$ 1,814,474	$ 1,507,919	$ 1,339,374	$ 1,185,956	$ 992,465

The residential real estate mortgage loan portfolio included construction loans totaling $6,468, $5,252, $8,636, $7,987 and $6,719 as of December 31, 2008, 2007, 2006, 2005 and 2004. The Bank generally sells conforming mortgage loans which it originates. These loans generally represent mortgage loans that are made to clients with long-term or substantial relationships with the Bank on terms consistent with secondary market requirements. The loan classifications are based on the nature of the loans as of the loan origination date. There were no foreign loans included in the loan portfolio for the periods presented.

ANALYSIS OF LOAN PORTFOLIO (cont.)
Analysis of Loans Outstanding (cont.)
(in thousands of dollars)

Repricing opportunities of the loan portfolio occur either according to predetermined adjustable rate schedules included in the related loan agreements or upon maturity of each principal payment. The following table indicates the scheduled maturities of the loan portfolio as of December 31, 2008.

	Commercial	Residential Real Estate Mortgage	Installment	Line of Credit	Total	Percent
Original maturity of one day	$ 546,097	$ 0	$ 0	$ 86,500	$ 632,597	34.50%
Other within one year	160,015	21,879	17,217	37,912	$ 237,023	12.93
After one year, within five years	684,267	24,074	31,632	3,682	$ 743,655	40.56
Over five years	122,584	70,520	2,325	4,053	$ 199,482	10.88
Nonaccrual loans	20,053	757	0	0	$ 20,810	1.13
Total loans	$ 1,533,016	$ 117,230	$ 51,174	$ 132,147	$ 1,833,567	100.0%

At maturity, credits are reviewed and, if renewed, are renewed at rates and conditions that prevail at the time of maturity.

Loans due after one year which have a predetermined interest rate and loans due after one year which have floating or adjustable interest rates as of December 31, 2008 amounted to $631,822 and $311,315.

ANALYSIS OF LOAN PORTFOLIO (cont.)
Review of Nonperforming Loans
(in thousands of dollars)

The following is a summary of nonperforming loans as of December 31, 2008, 2007, 2006, 2005 and 2004.

	2008	2007	2006	2005	2004
PART A - PAST DUE ACCRUING LOANS (90 DAYS OR MORE)					
Residential real estate mortgage loans	$ 126	$ 155	$ 0	$ 89	$ 117
Commercial and industrial loans	81	65	154	0	2,633
Loans to individuals for household, family and other personal expenditures	271	189	145	85	28
Loans to finance agriculture production and other loans to farmers	0	0	0	0	0
Total past due loans	478	409	299	174	2,778
PART B - NONACCRUAL LOANS					
Residential real estate mortgage loans	757	18	132	132	60
Commercial and industrial loans	20,053	7,021	13,688	7,189	7,152
Loans to individuals for household, family and other personal expenditures	0	0	0	0	0
Loans to finance agriculture production and other loans to farmers	0	0	0	0	0
Total nonaccrual loans	20,810	7,039	13,820	7,321	7,212
PART C - TROUBLED DEBT RESTRUCTURED LOANS	0	0	0	0	0
Total nonperforming loans	$ 21,288	$ 7,448	$ 14,119	$ 7,495	$ 9,990

Nonearning assets of the Company include nonperforming loans (as indicated above), nonaccrual investments, other real estate and repossessions, which amounted to $22,391 at December 31, 2008.

ANALYSIS OF LOAN PORTFOLIO (cont.)
Comments Regarding Nonperforming Assets

PART A - CONSUMER LOANS

Consumer installment loans, except those loans that are secured by real estate, are not placed on nonaccrual status since these loans are charged-off when they have been delinquent from 90 to 180 days, and when the related collateral, if any, is not sufficient to offset the indebtedness. Advances under consumer line of credit programs, are charged-off when collection appears doubtful.

PART B - NONPERFORMING LOANS

When a loan is classified as a nonaccrual loan, interest on the loan is no longer accrued and all accrued interest receivable is charged-off. It is the policy of the Bank that all loans for which the collateral is insufficient to cover all principal and accrued interest will be reclassified as nonperforming loans to the extent they are unsecured, on or before the date when the loan becomes 90 days delinquent. Thereafter, interest is recognized and included in income only when received. Interest not recorded on nonaccrual loans is referenced in Footnote 4 in Item 8 below.

As of December 31, 2008, there were $20.8 million of loans on nonaccrual status, some of which were also on impaired status. There were $20.3 million of loans classified as impaired.

PART C - TROUBLED DEBT RESTRUCTURED LOANS

Loans renegotiated as troubled debt restructurings are those loans for which either the contractual interest rate has been reduced and/or other concessions are granted to the borrower because of a deterioration in the financial condition of the borrower which results in the inability of the borrower to meet the terms of the loan.

As of December 31, 2008 and 2007, there were no loans renegotiated as troubled debt restructurings.

PART D - OTHER NONPERFORMING ASSETS

Management is of the opinion that there are no significant foreseeable losses relating to nonperforming assets, as defined in the preceding table, or classified loans, except as discussed above in Part B – Nonperforming Loans and Part C – Troubled Debt Restructured Loans.

PART E - LOAN CONCENTRATIONS

There were no loan concentrations within industries not otherwise disclosed, which exceeded ten percent of total loans except commercial real estate. Commercial real estate was $532.5 million at December 31, 2008. Nearly all of the Bank’s commercial, industrial, agricultural real estate mortgage, real estate construction mortgage and consumer loans are made within its basic service area.

Basis For Determining Allowance For Loan Losses:

The allowance is an amount that management believes will be adequate to absorb probable incurred credit losses relating to specifically identified loans based on an evaluation, as well as other probable incurred losses inherent in the loan portfolio. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to repay. Management also considers trends in adversely classified loans based upon a monthly review of those credits. An appropriate level of general allowance is determined after considering the following: application of historical loss percentages, emerging market risk, emerging concentrations, commercial loan focus and large credit concentration, new industry lending activity and general economic conditions. For a more thorough discussion of the allowance for loan losses methodology see the Critical Accounting Policies section of Item 7.

Based upon these policies and objectives, $10.2 million, $4.3 million and $2.6 million were charged to the provision for loan losses and added to the allowance for loan losses in 2008, 2007 and 2006.

The allocation of the allowance for loan losses to the various lending areas is performed by management in relation to perceived exposure to loss in the various loan portfolios. However, the allowance for loan losses is available in its entirety to absorb losses in any particular loan category.

ANALYSIS OF LOAN PORTFOLIO (cont.)
Summary of Loan Loss
(in thousands of dollars)

The following is a summary of the loan loss experience for the years ended December 31, 2008, 2007, 2006, 2005 and 2004.

	2008	2007	2006	2005	2004
Amount of loans outstanding, December 31,	$ 1,833,335	$ 1,523,720	$ 1,353,837	$ 1,198,730	$ 1,003,219
Average daily loans outstanding during the year ended December 31,	$ 1,665,024	$ 1,404,068	$ 1,270,484	$ 1,088,788	$ 930,934
Allowance for loan losses, January 1,	$ 15,801	$ 14,463	$ 12,774	$ 10,754	$ 10,234
Loans charged-off:					
Commercial	6,726	2,381	905	317	630
Real estate	72	16	0	8	20
Installment	805	537	145	164	271
Credit cards and personal credit lines	3	458	22	112	73
Total loans charged-off	7,606	3,392	1,072	601	994
Recoveries of loans previously charged-off:					
Commercial	147	252	53	37	121
Real estate	16	27	0	0	13
Installment	200	124	52	89	129
Credit cards and personal credit lines	95	29	12	15	28
Total recoveries	458	432	117	141	291
Net loans charged-off	7,148	2,960	955	460	703
Provision for loan loss charged to expense	10,207	4,298	2,644	2,480	1,223
Balance, December 31,	$ 18,860	$ 15,801	$ 14,463	$ 12,774	$ 10,754
Ratio of net charge-offs during the period to average daily loans outstanding:					
Commercial	0.40%	0.15%	0.07%	0.02%	0.05%
Real estate	0.00	0.00	0.00	0.00	0.00
Installment	0.04	0.03	0.01	0.01	0.02
Credit cards and personal credit lines	(0.01)	0.03	0.00	0.01	0.01
Total ratio of net charge-offs	0.43%	0.21%	0.08%	0.04%	0.08%
Ratio of allowance for loan losses to nonperforming assets	84.23%	160.27%	101.67%	169.87%	104.76%

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ANALYSIS OF LOAN PORTFOLIO (cont.)
Allocation of Allowance for Loan Losses
(in thousands of dollars)

The following is a summary of the allocation for loan losses as of December 31, 2008, 2007, 2006, 2005 and 2004.

	2008		2007		2006	
	Allowance For Loan Losses	Loans as Percentage of Gross Loans	Allowance For Loan Losses	Loans as Percentage of Gross Loans	Allowance For Loan Losses	Loans as Percentage of Gross Loans
Allocated allowance for loan losses:						
Commercial	$ 15,738	83.61%	$ 13,659	81.42%	$ 12,185	80.24%
Real estate	292	6.39	571	8.15	389	8.07
Installment	384	2.79	421	3.23	690	6.20
Credit cards and personal credit lines	996	7.21	828	7.20	561	5.49
Total allocated allowance for loan losses	17,410	100.00%	15,479	100.00%	13,825	100.00%
Unallocated allowance for loan losses	1,450		322		638	
Total allowance for loan losses	$ 18,860		$ 15,801		$ 14,463	

	2005		2004	
	Allowance For Loan Losses	Loans as Percentage of Gross Loans	Allowance For Loan Losses	Loans as Percentage of Gross Loans
Allocated allowance for loan losses:				
Commercial	$ 10,870	80.46%	$ 8,696	78.84%
Real estate	187	6.24	136	5.40
Installment	509	5.67	398	5.29
Credit cards and personal credit lines	688	7.63	789	10.47
Total allocated allowance for loan losses	12,254	100.00%	10,019	100.00%
Unallocated allowance for loan losses	520		735	
Total allowance for loan losses	$ 12,774		$ 10,754	

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ANALYSIS OF DEPOSITS
(in thousands of dollars)

The average daily deposits for the years ended December 31, 2008, 2007 and 2006, and the average rates paid on those deposits are summarized in the following table:

	2008		2007		2006	
	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid	Average Daily Balance	Average Rate Paid
Demand deposits	$ 219,762	0.00%	$ 226,484	0.00%	$ 219,997	0.00%
Savings and transaction accounts:						
Regular savings	64,877	0.10	67,104	0.20	67,818	0.21
Interest bearing checking	495,057	2.02	425,753	3.49	405,209	3.16
Time deposits:						
Deposits of $100,000 or more	528,316	3.90	462,056	5.27	430,378	4.97
Other time deposits	329,783	4.22	295,328	4.84	264,087	4.08
Total deposits	$ 1,637,795	2.72%	$ 1,476,725	3.63%	$ 1,387,489	3.25%

As of December 31, 2008, time certificates of deposit will mature as follows:

	$ 100,000 or more	% of Total	Other	% of Total
Within three months	$ 316,149	49.59%	$ 61,943	17.17%
Over three months, within six months	129,300	20.28	65,282	18.10
Over six months, within twelve months	133,336	20.91	143,025	39.64
Over twelve months	58,788	9.22	90,521	25.09
Total time certificates of deposit	$ 637,573	100.00%	$ 360,771	100.00%

QUALITATIVE MARKET RISK DISCLOSURE

Management's market risk disclosure appears under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, below, and is incorporated herein by reference in response to this item. The Company's primary market risk exposure is interest rate risk. The Company does not have a material exposure to foreign currency exchange rate risk, does not own any material derivative financial instruments and does not maintain a trading portfolio.

RETURN ON EQUITY AND OTHER RATIOS

The rates of return on average daily assets and stockholders' equity, the dividend payout ratio, and the average daily stockholders' equity to average daily assets for the years ended December 31, 2008, 2007 and 2006 were as follows:

	2008	2007	2006
Percent of net income to:			
Average daily total assets	0.91%	1.04%	1.10%
Average daily stockholders' equity	13.04%	13.94%	15.35%
Percentage of dividends declared per common share to basic earnings per weighted average number of common shares outstanding (12,271,927 shares in 2008, 12,188,594 shares in 2007 and 12,069,300 shares in 2006)	37.58%	34.49%	24.19%
Percentage of average daily stockholders' equity to average daily total assets	6.96%	7.49%	7.18%

Cash dividends were declared on April 8, July 8, October 14, 2008 and January 13, 2009 for each quarter of 2008, April 10, July 10, October 9, 2007 and January 8, 2008 for each quarter of 2007 and April 11, July 11 and October 10, 2006 and January 9, 2007 for each quarter of 2006.

SHORT-TERM BORROWINGS
(in thousands of dollars)

The following is a schedule, at the end of the year indicated, of statistical information relating to securities sold under agreement to repurchase maturing within one year and secured by either U.S. Government agency securities or mortgage-backed securities classified as other debt securities and other short-term borrowings maturing within one year. There were no other categories of short-term borrowings for which the average balance outstanding during the period was 30 percent or more of stockholders’ equity at the end of each period.

	2008	2007	2006
Outstanding at year end:			
Federal funds purchased	$ 19,000	$ 70,010	$ 0
Securities sold under agreements to repurchase	$ 137,769	$ 154,913	$ 106,670
Other short-term borrowings	$ 45,000	$ 90,000	$ 80,000
Approximate average interest rate at year end:			
Federal funds purchased	0.50%	4.07%	0.00%
Securities sold under agreements to repurchase	0.43%	3.20%	3.59%
Other short-term borrowings	0.65%	4.31%	5.36%
Highest amount outstanding as of any month end during the year:			
Federal funds purchased	$ 126,700	$ 96,850	$ 53,000
Securities sold under agreements to repurchase	$ 175,427	$ 154,913	$ 106,670
Other short-term borrowings	$ 163,700	$ 90,000	$ 80,000
Approximate average outstanding during the year:			
Federal funds purchased	$ 50,171	$ 22,950	$ 19,119
Securities sold under agreements to repurchase	$ 153,363	$ 121,372	$ 92,870
Other short-term borrowings	$ 73,981	$ 32,247	$ 31,726
Approximate average interest rate during the year:			
Federal funds purchased	2.53%	5.33%	5.22%
Securities sold under agreements to repurchase	1.85%	3.52%	3.20%
Other short-term borrowings	2.09%	5.09%	5.13%

Securities sold under agreements to repurchase include fixed rate, term transactions initiated by the Bank, as well as corporate sweep accounts. Other short-term borrowings consist of Federal Home Loan Bank advances.

ITEM 1a. RISK FACTORS

In addition to the other information in this Annual Report on Form 10-K, shareholders or prospective investors should carefully consider the following risk factors:

Our business may be adversely affected by conditions in the financial markets and economic conditions generally.

The United States has been in a recession since December, 2007. Business activity across a wide range of industries and regions is greatly reduced and many businesses and local governments are experiencing serious difficulty in remaining profitable and providing services due to the lack of consumer spending and the lack of liquidity in the credit markets. Unemployment has increased significantly. Since mid-2007, and particularly during the second half of 2008, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a serious lack of liquidity. This was initially triggered by declines in home prices and the values of subprime mortgages, but spread to all mortgage and real estate asset classes, to leveraged bank loans and to nearly all asset classes, including equities. The global markets have been characterized by substantially increased volatility and short-selling and an overall loss of investor confidence, initially in financial institutions, but more recently in companies in a number of other industries and in the broader markets.

Market conditions have also led to the failure or merger of a number of prominent financial institutions. Financial institution failures or near-failures have resulted in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. Furthermore, declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to increase credit default swap spreads, to cause rating agencies to lower credit ratings, and to otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in Federal Reserve borrowing rates and other government actions. Some banks and other lenders have suffered significant losses and have become reluctant to lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values on the value of collateral. The foregoing has significantly weakened the strength and liquidity of some financial institutions worldwide. In 2008, the U.S. government, the Federal Reserve and other regulators have taken numerous steps to increase liquidity and to restore investor confidence, including committing to invest at least $250 billion in the equity of other banking organizations, but asset values have continued to decline and access to liquidity for many organizations continues to be very limited.

As a result of these financial economic crises, many lending institutions, including us, have experienced declines in the performance of their loans, including commercial loans, commercial real estate loans and consumer loans. Moreover, competition among depository institutions for deposits and quality loans has increased significantly. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets has become more difficult compared to recent years. As a result, there is a potential for new federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal or informal enforcement actions or orders. The impact of new legislation in response to those developments, may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance or our stock price.

In addition, further negative market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provision for credit losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry.

Overall, during the past year, the general business environment has had an adverse effect on our business, and there can be no assurance that the environment will improve in the near term. Until conditions improve, we expect our business, financial condition and results of operations to be adversely affected.

Our business is concentrated in and dependent upon the continued growth and welfare of our primary market areas.

We operate primarily in four geographical markets, all of which are located in Northern Indiana and are further described in the “Business” section included under Item 1 of Part I of this Form 10-K. We have developed a particularly strong presence in the South Region, which includes Kosciusko County and portions of contiguous

counties, the North Region, which includes portions of Elkhart and St. Joseph County, and the Central Region, which includes portions of Elkhart County and contiguous counties. These regions represent the more mature markets. In addition, we have experienced rapid growth in the East Region, which includes Allen and DeKalb Counties. The Company also operates a loan production office in Indianapolis, which is staffed by commercial lending officers and consider our presence in this market as more mature and strong than in previous years. Our success depends upon the business activity, population, income levels, deposits and real estate activity in these markets. Although our customers' business and financial interests may extend well beyond these market areas, adverse economic conditions that affect these market areas could reduce our growth rate, affect the ability of our customers to repay their loans to us and generally affect our financial condition and results of operations. Areas of our geographical market have seen notably worse economic conditions than those suffered by the country at-large. In particular, Elkhart County has suffered from adverse business and economic conditions that have resulted in levels of unemployment well above the national average. Because of our geographic concentration, we are less able than other regional or national financial institutions to diversify our credit risks across multiple markets.

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our existing capital resources will satisfy our capital requirements for the foreseeable future. We have accepted a capital investment of $56.0 million under the Department of Treasury's Troubled Asset Repurchase Program's Capital Purchase Plan, which will further strengthen our capital position. However, we may at some point need to raise additional capital to support our continued growth. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth, de novo branching and/or acquisitions could be materially impaired.

Interest rates and other conditions impact our results of operations.

Our profitability is significantly driven by the spread between the interest rates earned on investments and loans and the interest rates paid on deposits and other interest-bearing liabilities. Like most banking institutions, our net interest spread and margin will be affected by general economic conditions and other factors, including fiscal and monetary policies of the federal government, that influence market interest rates and our ability to respond to changes in such rates. At any given time, our assets and liabilities will be such that they are affected differently by a given change in interest rates. As a result, an increase or decrease in rates, the length of loan terms or the mix of adjustable and fixed rate loans in our portfolio could have a positive or negative effect on our net income, capital and liquidity. We measure interest rate risk under various rate scenarios and using specific criteria and assumptions. A summary of this process, along with the results of our net interest income simulations is presented at "Quantitative and Qualitative Disclosures About Market Risk" included under Item 7a of Part II of this Form 10-K. Although we believe our current level of interest rate sensitivity is reasonable and effectively managed, significant fluctuations in interest rates may have an adverse effect on our business, financial condition and results of operations.

Our allowance for loan losses may prove to be insufficient to absorb potential losses in our loan portfolio.

We established our allowance for loan losses pursuant to our established guidelines and practices and maintain it at a level considered adequate by management to absorb loan losses that are inherent in the portfolio. The amount of future loan losses is susceptible to changes in economic, operating and other conditions (in our market as well as the United States), including changes in interest rates, which may be beyond our control, and such losses may exceed current estimates. At December 31, 2008, our allowance for loan losses as a percentage of total loans was 1.03% and as a percentage of total non-performing loans was 89%. Although management believes that the allowance for loan losses is adequate to absorb probable incurred losses on any existing loans, we cannot predict loan losses with certainty, and we cannot assure you that our allowance for loan losses will prove sufficient to cover actual loan losses in the future. Loan losses in excess of our reserves may adversely affect our business, financial condition and results of operations. Additional information regarding our allowance for loan losses and the methodology we use to determine an appropriate level of reserves is located in the "Management's Discussion and Analysis" section included under Item 7 of Part II of this Form 10-K.

We may experience difficulties in managing our growth and our growth strategy involves risks that may negatively impact our net income.

As part of our general growth strategy, we may expand into additional communities or attempt to strengthen our position in our current markets by opening new branches and acquiring existing branches of other financial institutions. To the extent that we undertake additional branch openings and acquisitions, we are likely to continue to experience the effects of higher operating expenses relative to operating income from the new operations, which may have an adverse effect on our levels of reported net income, return on average equity and return on average assets. Other effects of engaging in such growth strategies may include potential diversion of our management’s time and attention and general disruption to our business.

Although we do not have any current plans to do so, we may also acquire banks and related businesses that we believe provide a strategic fit with our business. We may also engage in de novo branching as we have in the past and intend to do in the Indianapolis market in the future. To the extent that we grow through acquisitions and de novo bank formations, we cannot assure you that we will be able to adequately and profitably manage this growth. Acquiring other banks and businesses will involve similar risks to those commonly associated with branching, but may also involve additional risks, including:

- potential exposure to unknown or contingent liabilities of banks and businesses we acquire;
- exposure to potential asset quality issues of the acquired bank or related business;
- difficulty and expense of integrating the operations and personnel of banks and businesses we acquire; and
- the possible loss of key employees and customers of the banks and businesses we acquire.

We face intense competition in all phases of our business from other banks and financial institutions.

The banking and financial services business in our market is highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions, farm credit services and other non-bank financial service providers. Many of these competitors are not subject to the same regulatory restrictions as we are and are able to provide customers with a feasible alternative to traditional banking services.

Increased competition in our market may also result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to grow and remain profitable. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to relax our underwriting standards, we could be exposed to higher losses from lending activities. Additionally, many of our competitors are much larger in total assets and capitalization, have greater access to capital markets and larger lending limits and offer a broader range of financial services than we can offer.

We must effectively manage our credit risk.

There are risks inherent in making any loan, including risks inherent in dealing with individual borrowers, risks of nonpayment, risks resulting from uncertainties as to the future value of collateral and risks resulting from changes in economic and industry conditions. We attempt to minimize our credit risk through prudent loan application approval procedures, careful monitoring of the concentration of our loans within specific industries, a centralized credit administration department and periodic independent reviews of outstanding loans by our loan review department. However, we cannot assure you that such approval and monitoring procedures will reduce these credit risks.

The majority of the Bank’s loan portfolio is invested in commercial and commercial real estate loans. These loans represent higher dollar volumes to fewer customers. As a result, we may assume greater lending risks than other community banking-type financial institutions that have a lesser concentration of such loans and are more retail oriented. Our lending activity and the risks commonly associated with such lending are further described in the “Management’s Discussion and Analysis” section included under Item 7 of Part II of this Form 10-K.

Commercial and industrial and agri-business loans make up a significant portion of our loan portfolio.

Commercial and industrial and agri-business loans were $1.533 billion, or approximately 84% of our total loan portfolio as of December 31, 2008. Our commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, machinery or real estate. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists. Whenever possible, we require a personal guarantee on commercial loans. As a result, in the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Our loan portfolio has a large concentration of commercial real estate loans, which involve risks specific to real estate value.

Real estate lending (including commercial, construction, and, to a much lesser extent, residential) is a large portion of our loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Although a significant portion of such loans are secured by real estate as a secondary form of collateral, continued adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results and financial condition.

Our consumer loans generally have a higher degree of risk of default than our other loans.

At December 31, 2008, consumer loans totaled $55.1 million, or 3%, of our total loan and lease portfolio. Consumer loans typically have shorter terms and lower balances with higher yields as compared to one-to-four family residential loans, but generally carry higher risks of default. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on these loans.

Our community banking strategy relies heavily on our management team, and the unexpected loss of key managers may adversely affect our operations.

Much of our success to date has been influenced strongly by our ability to attract and to retain senior management experienced in banking and financial services and familiar with the communities in our market areas. Our ability to retain executive officers, the current management teams, branch managers and loan officers of our bank subsidiary will continue to be important to the successful implementation of our strategy. It is also critical, as we grow, to be able to attract and retain qualified additional management and loan officers with the appropriate level of experience and knowledge about our market areas to implement our community-based operating strategy. The unexpected loss of services of any key management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition and results of operations.

Government regulation can result in limitations on our operations.

We operate in a highly regulated environment and are subject to supervision and regulation by a number of governmental regulatory agencies, including the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Indiana Department of Financial Institutions. Regulations adopted by these agencies, which are generally intended to provide protection for depositors and customers rather than for the benefit of shareholders, govern a comprehensive range of matters relating to ownership and control of our shares, our acquisition of other companies and businesses, permissible activities for us to engage in, maintenance of adequate capital levels and other aspects of our operations. These bank regulators possess broad authority to prevent or

remedy unsafe or unsound practices or violations of law. The laws and regulations applicable to the banking industry could change at any time and we cannot predict the effects of these changes on our business and profitability. Increased regulation could increase our cost of compliance and adversely affect profitability. For example, new legislation or regulation may limit the manner in which we may conduct our business, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads.

We have a continuing need for technological change and we may not have the resources to effectively implement new technology.

The financial services industry is constantly undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market areas. Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, we cannot provide you with assurance that we will be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

There is a limited trading market for our common shares, and you may not be able to resell your shares at or above the price you paid for them.

Although our common shares are listed for trading on the Global Select Market of the NASDAQ Stock Market, the trading in our common shares has less liquidity than many other companies quoted on the NASDAQ Global Select Market. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. We cannot assure you that volume of trading in our common shares will increase in the future. Additionally, general market forces may have a negative effect on our stock price, independent of factors affecting our stock specifically.

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, there can be no assurance that these security measures will be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate operational risks, including data processing system failures and errors and customer or employee fraud. Should our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

If LCB Funding, Inc. fails to qualify as a real estate investment trust, we may be subject to a higher consolidated effective tax rate.

The Bank holds certain commercial real estate loans, residential real estate loans and other loans in a real estate investment trust through its wholly-owned subsidiary LCB Investments II, Inc., which is incorporated in Nevada. Qualification as a real estate investment trust involves application of specific provisions of the Internal Revenue Code relating to various asset tests. If LCB Funding, Inc. fails to meet any of the required provisions for real estate investment trusts, or there are changes in tax laws or interpretations thereof, it could no longer qualify as a real estate investment trust and the resulting tax consequences would increase our effective tax rate or cause us to have a tax liability for prior years.

ITEM 1b. UNRESOLVED STAFF COMMENTS

We have no unresolved SEC staff comments.

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ITEM 2. PROPERTIES

The Company conducts its operations from the following locations:

Location			
Main/Headquarters	202 East Center St.	Warsaw	IN
Warsaw Drive-up	East Center St.	Warsaw	IN
Akron	102 East Rochester	Akron	IN
Argos	100 North Michigan	Argos	IN
Auburn	1220 East 7th St.	Auburn	IN
Bremen	1600 State Road 331	Bremen	IN
Columbia City	601 Countryside Dr.	Columbia City	IN
Concord	4202 Elkhart Rd.	Goshen	IN
Cromwell	111 North Jefferson St.	Cromwell	IN
Elkhart Beardsley	864 East Beardsley St.	Elkhart	IN
Elkhart East	22050 State Road 120	Elkhart	IN
Elkhart Hubbard Hill	58404 State Road 19	Elkhart	IN
Elkhart Northwest	1208 North Nappanee St.	Elkhart	IN
Fort Wayne North	302 East DuPont Rd.	Fort Wayne	IN
Fort Wayne Northeast	10411 Maysville Rd.	Fort Wayne	IN
Fort Wayne Southwest	10429 Illinois Rd.	Fort Wayne	IN
Fort Wayne Jefferson Blvd	6851 West Jefferson Blvd.	Fort Wayne	IN
Goshen Downtown	102 North Main St.	Goshen	IN
Goshen South	2513 South Main St.	Goshen	IN
Granger	12830 State Road 23	Granger	IN
Huntington	1501 North Jefferson St.	Huntington	IN
Kendallville East	631 Professional Way	Kendallville	IN
LaGrange	901 South Detroit	LaGrange	IN
Ligonier Downtown	222 South Cavin St.	Ligonier	IN
Ligonier South	1470 U.S. Highway 33 South	Ligonier	IN
Medaryville	Main St.	Medaryville	IN
Mentone	202 East Main St.	Mentone	IN
Middlebury	712 Wayne Ave.	Middlebury	IN
Milford	State Road 15 North	Milford	IN
Mishawaka	5015 North Main St.	Mishawaka	IN
Nappanee	202 West Market St.	Nappanee	IN
North Webster	644 North Main St.	North Webster	IN
Pierceton	202 South First St.	Pierceton	IN
Plymouth	862 East Jefferson St.	Plymouth	IN
Rochester	507 East 9th St.	Rochester	IN
Shipshewana	895 North Van Buren St.	Shipshewana	IN
Silver Lake	102 Main St.	Silver Lake	IN
South Bend Northwest	21113 Cleveland Rd.	South Bend	IN
Syracuse	502 South Huntington	Syracuse	IN
Warsaw East	3601 Commerce Dr.	Warsaw	IN
Warsaw North	420 Chevy Way	Warsaw	IN
Warsaw West	1221 West Lake St.	Warsaw	IN
Winona Lake	99 Chestnut St.	Winona Lake	IN
Winona Lake East	1324 Wooster Rd.	Winona Lake	IN

The Company leases from third parties the real estate and buildings for its Milford and Winona Lake East offices. In addition, the Company leases the real estate for its four freestanding ATMs. All the other branch facilities are owned by the Company. The Company also owns parking lots in downtown Warsaw for the use and convenience of Company employees and customers, as well as leasehold improvements, equipment, furniture and fixtures necessary to operate the banking facilities.

In addition, the Company owns buildings at 110 South High St., Warsaw, Indiana, and 114-118 East Market St., Warsaw, Indiana, which it uses for various offices, a building at 113 East Market St., Warsaw, Indiana, which it uses for office and computer facilities, and a building at 109 South Buffalo St., Warsaw, Indiana, which it uses for training and development. The Company also leases from third parties office space in Indianapolis, Indiana, for a loan production office.

None of the Company's assets are the subject of any material encumbrances.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings other than ordinary routine litigation incidental to the business to which the Company and the Bank are a party or of which any of their property is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of 2008.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
2008				
Trading prices (per share)*				
Low	**$ 14.93**	**$ 18.52**	**$ 19.00**	**$ 16.87**
High	**$ 24.10**	**$ 30.09**	**$ 25.00**	**$ 23.97**
Dividends declared (per share)	**$ 0.155**	**$ 0.155**	**$ 0.155**	**$ 0.140**
2007				
Trading prices (per share)*				
Low	$ 18.25	$ 20.05	$ 20.71	$ 21.85
High	$ 25.00	$ 25.98	$ 23.81	$ 25.92
Dividends declared (per share)	$ 0.140	$ 0.140	$ 0.140	$ 0.125

* *The trading ranges are the high and low prices as obtained from The Nasdaq Stock Market.*

The common stock of the Company began being quoted on The Nasdaq Stock Market under the symbol LKFN in August, 1997. Currently, the Company's common stock is listed for trading on the Nasdaq Global Select market. On December 31, 2008, the Company had approximately 439 shareholders of record and estimates that it has approximately 2,300 shareholders in total.

The Company paid dividends as set forth in the table above. The Company's ability to pay dividends to shareholders is largely dependent upon the dividends it receives from the Bank, and the Bank is subject to regulatory limitations on the amount of cash dividends it may pay. In addition, as a result of the Company's participation in the TARP Capital Purchase Program, the Company may not increase the quarterly dividends it pays on the Company's common stock above $0.155 per share for three years, without the consent of Treasury, unless Treasury no longer holds shares of the Series A Preferred Stock. See "Business – Supervision and Regulation – The Company – Dividend Payments" and "Business - Supervision and Regulation – The Bank – Dividend Payments" for a more detailed description of these limitations.

The following table provides information about purchases by the Company and its affiliates during the quarter ended December 31, 2008 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/08-10/31/08	0	$ 0.00	0	$ 0.00
11/01/08-11/30/08	758	21.57	0	0.00
12/01/08-12/31/08	0	0.00	0	0.00
Total	758	$ 21.57	0	$ 0.00

The shares purchased during the periods were credited to the deferred share accounts of eight non-employee directors under the Company's directors' deferred compensation plan.

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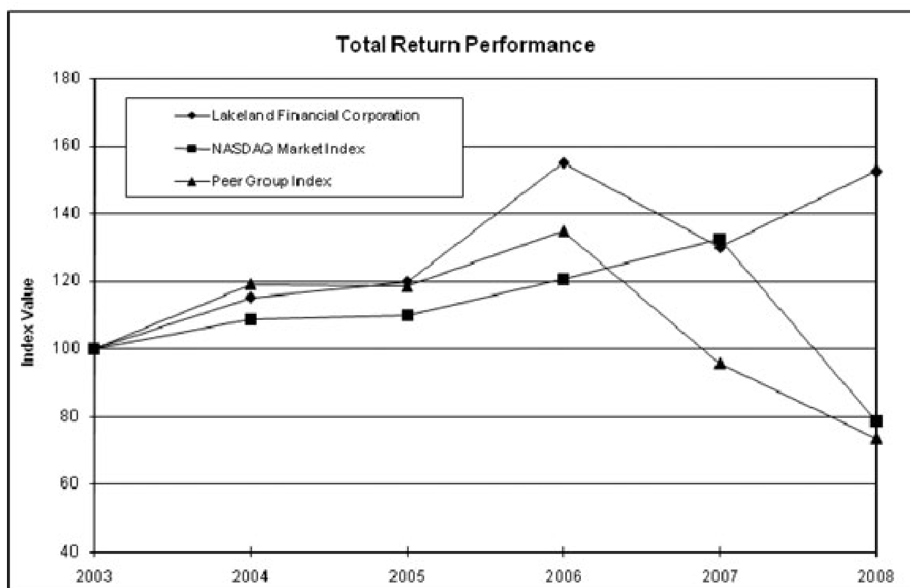
STOCK PRICE PERFORMANCE GRAPH

The graph below compares the cumulative total return of the Company, the Nasdaq Market Index and a peer group index.



INDEX		2003		2004		2005		2006		2007		2008
Lakeland Financial Corporation	$	100.00	$	115.12	$	119.82	$	154.78	$	129.79	$	152.27
NASDAQ Market Index		100.00		108.59		110.08		120.56		132.39		78.72
Peer Group Index		100.00		119.17		118.45		134.88		95.73		73.33

* Assumes $100 invested on December 31, 2003 and dividends were reinvested.

The peer group index is comprised of all financial institution holding companies in the United States with total assets as of December 31, 2008 between $1.0 billion and $3.0 billion dollars whose equity securities were traded on an exchange or national quotation service.

ITEM 6. SELECTED FINANCIAL DATA

	2008	2007	2006	2005	2004
	(in thousands except share and per share data)				
Interest income	**$ 118,484**	$ 117,973	$ 105,551	$ 80,616	$ 60,182
Interest expense	**55,216**	63,417	53,224	30,353	16,833
Net interest income	**63,268**	54,556	52,327	50,263	43,349
Provision for loan losses	**10,207**	4,298	2,644	2,480	1,223
Net interest income after provision for loan losses	**53,061**	50,258	49,683	47,783	42,126
Other noninterest income	**21,861**	19,477	18,281	16,358	15,693
Gain on sale of credit card portfolio	**0**	0	0	863	0
Gain on redemption of Visa shares	**642**	0	0	0	0
Net gains on sale of real estate mortgages held for sale	**786**	676	581	934	987
Net securities gains (losses)	**39**	89	(68)	(69)	0
Noninterest expense	**(47,481)**	(42,923)	(40,242)	(38,432)	(36,959)
Income before income tax expense	**28,908**	27,577	28,235	27,437	21,847
Income tax expense	**9,207**	8,366	9,514	9,479	7,302
Net income	**$ 19,701**	$ 19,211	$ 18,721	$ 17,958	$ 14,545
Basic weighted average common shares outstanding*	**12,271,927**	12,188,594	12,069,300	11,927,756	11,735,410
Basic earnings per common share*	**$ 1.61**	$ 1.58	$ 1.55	$ 1.51	$ 1.24
Diluted weighted average common shares outstanding*	**12,459,802**	12,424,137	12,375,467	12,289,466	12,128,154
Diluted earnings per common share*	**$ 1.58**	$ 1.55	$ 1.51	$ 1.46	$ 1.20
Cash dividends declared*	**$ 0.61**	$ 0.55	$ 0.38	$ 0.46	$ 0.42

** Share and per share data have been adjusted for a 2-for-1 stock split on April 28, 2006.*

ITEM 6. SELECTED FINANCIAL DATA (continued)

	2008	2007	2006	2005	2004
			(in thousands)		
Balances at December 31,					
Total assets	**$ 2,377,445**	$ 1,989,133	$ 1,836,706	$ 1,634,613	$ 1,453,122
Total loans	**$ 1,833,334**	$ 1,523,720	$ 1,353,837	$ 1,198,730	$ 1,003,219
Total deposits	**$ 1,885,299**	$ 1,478,918	$ 1,475,765	$ 1,266,245	$ 1,115,399
Total short-term borrowings	**$ 202,609**	$ 316,165	$ 187,484	$ 211,542	$ 185,650
Long-term borrowings	**$ 90,043**	$ 44	$ 45	$ 46	$ 10,046
Subordinated debentures	**$ 30,928**	$ 30,928	$ 30,928	$ 30,928	$ 30,928
Total stockholders’ equity	**$ 149,880**	$ 146,270	$ 130,187	$ 113,334	$ 101,765

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Lakeland Financial Corporation is the holding company for Lake City Bank. The Company is headquartered in Warsaw, Indiana and operates 43 offices in twelve counties in northern Indiana and a loan production office in Indianapolis, Indiana. The Company earned $19.7 million for the year 2008 versus $19.2 million for 2007, an increase of 2.6%. The increase was driven primarily by an $8.7 million increase in net interest income and a $3.1 million increase in noninterest income. Offsetting these positive impacts was a $5.9 million increase in the provision for loan losses and a $4.6 million increase in noninterest expense. The Company earned $19.2 million for the year 2007 versus $18.7 million for 2006, an increase of 2.6%. The increase was driven primarily by a $2.2 million increase in net interest income and a $1.3 million increase in noninterest income. In addition, the Company’s effective tax rate decreased to 30.3% for 2007 compared to 33.7% for 2006. Offsetting these positive impacts was a $2.5 million increase in noninterest expense and a $1.7 million increase in the provision for loan losses.

Basic earnings per share for the year 2008 was $1.61 per share versus $1.58 per share for 2007 and $1.55 for 2006. Diluted earnings per share for the year ended 2008 was $1.58 per share versus $1.55 per share for the year ended 2007 and $1.51 for the year ended 2006. Diluted earnings per share reflect the potential dilutive impact of stock options granted under employee stock option plans.

The Company’s total assets were $2.377 billion as of December 31, 2008 versus $1.989 billion as of December 31, 2007, an increase of $388.3 million or 19.5%. This increase was primarily due to a $292.4 million increase in commercial loans from $1.241 billion at December 31, 2007 to $1.533 billion at December 31, 2008.

RESULTS OF OPERATIONS

2008 versus 2007

The Company reported record net income of $19.7 million in 2008, an increase of $490,000, or 2.6%, versus net income of $19.2 million in 2007. Net interest income increased $8.7 million, or 16.0%, to $63.3 million versus $54.6 million in 2007. Net interest income increased primarily due to increases in average earning assets, particularly a 22.4% increase in commercial loans as a result of our continued strategic focus on commercial lending as a key driver of the business. Interest income increased $511,000, or 0.4%, from $118.0 million in 2007 to $118.5 million in 2008. The increase was driven primarily by increases in average earning assets. Interest expense decreased $8.2 million, or 12.9%, from $63.4 million in 2007 to $55.2 million in 2008. The decrease was primarily the result of a 101 basis point decrease in the Company’s daily cost of funds over the year due to a decrease in market rates over the same time period. The Company had a net interest margin of 3.14% in 2008 versus 3.22% in

2007, primarily due to a decline in the prime rate from 7.25% to 3.25% during 2008, which was led by changes in the Fed Fund rate by the Federal Open Market Committee. Average earning assets increased by $318.5 million from $1.7 billion in 2007 to $2.0 billion in 2008. This increase was due primarily to loan growth led by significant growth in five counties: St. Joseph, Kosciusko, Allen, Hamilton and Elkhart and with balanced growth in the Bank’s other regions. Deposits increased to fund the loan growth during 2008, driven primarily by increases of $69.3 million in interest bearing transaction accounts, $37.3 million in average brokered deposit balances and $36.9 million in average other time deposit account balances. The increase in interest bearing transaction accounts was driven primarily by the addition of a new product, which pays a higher interest rate on balances up to a maximum balance amount when certain conditions are met during each interest cycle. In addition, loan growth was funded by a $97.0 million increase in the average balance in Federal Home Loan Bank advances. Management believes that the growth in the loan portfolio will likely continue in a measured, but prudent fashion as a result of our strategic focus on commercial lending and in conjunction with the general expansion and penetration of the geographical markets the Company serves, as well as our expansion in the Indianapolis market and the continued progress that we are making in that relatively new market.

Nonaccrual loans were $20.8 million, or 1.14% of total loans, at year end versus $7.0 million, or 0.46% of total loans, at the end of 2007. There were 22 relationships totaling $20.3 million classified as impaired as of December 31, 2008 versus five relationships totaling $6.7 million at the end of 2007. The increase in impaired and nonperforming loans resulted primarily from the addition of four commercial relationships totaling $14.4 million. Net charge-offs were $7.1 million in 2008 versus $3.0 million in 2007, representing 0.43% and 0.21% of average daily loans in 2008 and 2007. Total nonperforming loans were $21.3 million, or 1.16% of total loans, at year end 2008 versus $7.4 million, or 0.49% of total loans, at the end of 2007. The provision for loan loss expense was $10.2 million in 2008, resulting in an allowance for loan losses at December 31, 2008 of $18.9 million, which represented 1.03% of the loan portfolio, versus a provision for loan loss expense of $4.3 million in 2007 and an allowance for loan losses of $15.8 million at the end of 2007, or 1.04% of the loan portfolio. The higher provision in 2008 versus 2007 was attributable to a number of factors, but was primarily a result of an increase in net charge-offs, general growth in the loan portfolio, as well as higher allocations on specific watch list credits. The level of loan loss provision was also influenced by other factors related to the growth in the loan portfolio, such as the continued emerging market risk, the continued emerging concentration risk, commercial loan focus and large credit concentration, new industry lending activity, general economic conditions and historical loss percentages. In addition, management gave consideration to changes in the allocation for specific watch list credits in determining the appropriate level of the loan loss provision. Management’s overall view on current credit quality was also a factor in the determination of the provision for loan losses. The Company’s management continues to monitor the adequacy of the provision based on loan levels, asset quality, economic conditions and other factors that may influence the assessment of the collectability of loans.

Noninterest income was $23.3 million in 2008 versus $20.2 million in 2007, an increase of $3.1 million, or 15.3%. The 2008 increase was driven by a $1.4 million, or 18.9%, increase in service charges on deposit accounts. The increase was due primarily to increases in retail NSF fees and account analysis service charges on commercial checking accounts, which are generally higher when the earnings allowance credit rate is lower. Additionally, noninterest income increased due to a nonrecurring gain of $642,000 related to the VISA initial public offering and the redemption of some of the shares we owned in connection with the offering. Investment brokerage fees increased $381,000, or 25.6%, due to increased trade volume. Loan, insurance and service fees increased $328,000, or 13.2%, driven by higher fee income on debit card activity.

Noninterest expense increased $4.6 million, or 10.6%, from $42.9 million in 2007 to $47.5 million in 2008. Other expense increased by $1.8 million, or 20.1%, driven by regulatory expenses which increased by $1.5 million due to the Company’s resumption of regular FDIC insurance premiums, as prior credits expired early in 2008. We expect our premiums to continue to increase as we increase our deposit base and as the FDIC will charge higher assessments due to the current troubled economy. Salaries and employee benefits increased by $1.7 million, or 7.0%, driven by normal salary increases, increased health insurance and performance-based incentive expense, the addition of revenue producing staff and enhanced staff in administrative positions. Data processing fees and supplies increased $549,000, or 17.7%, driven by the implementation of a new corporate treasury management platform and contractual increases in existing operating services. Net occupancy expense increased by $348,000, or 12.7%, primarily as a result of higher maintenance and repair costs and higher property tax expense that resulted from the Indiana property tax reapportionment process.

As a result of these factors, income before income tax expense increased $1.3 million, or 4.8%, from $27.6 million in 2007 to $28.9 million in 2008. Income tax expense was $9.2 million in 2008 versus $8.4 million in 2007. Income tax as a percentage of income before tax was 31.8% in 2008 versus 30.3% in 2007. The increase in the tax rate was driven by a lower percentage of revenue being derived from tax-advantaged sources in 2008 versus 2007. Net income increased $490,000, or 2.6%, to $19.7 million in 2008 versus $19.2 million in 2007. Basic earnings per

share in 2008 was $1.61, an increase of 1.9%, versus $1.58 in 2007. The Company's net income performance represented a 13.5% return on January 1, 2008, stockholders' equity versus 14.8% in 2007. The net income performance resulted in a 0.91% return on average daily assets in 2008 versus 1.04% in 2007.

RESULTS OF OPERATIONS

2007 versus 2006

The Company reported record net income of $19.2 million in 2007, an increase of $490,000, or 2.6%, versus net income of $18.7 million in 2006. Net interest income increased $2.2 million, or 4.3%, to $54.6 million versus $52.3 million in 2006. Net interest income increased primarily due to increases in average earning assets, particularly a 14% increase in commercial loans as a result of our strategic focus on commercial lending. Interest income increased $12.4 million, or 11.8%, from $105.6 million in 2006 to $118.0 million in 2007. The increase was driven primarily by increases in average earning assets, as well as a 14 basis point increase in the tax equivalent yield on average earning assets over the year. Interest expense increased $10.2 million, or 19.2%, from $53.2 million in 2006 to $63.4 million in 2007. The increase was primarily the result of a 36 basis point increase in the Company's daily cost of funds over the year. The Company had a net interest margin of 3.22% in 2007 versus 3.38% in 2006. Average earning assets increased by $148.7 million from $1.6 billion in 2006 to $1.7 billion in 2007. This loan growth was led by significant growth in Elkhart and Allen Counties and with balanced growth in the Bank's other regions. Deposits increased to fund the loan growth during 2007, driven primarily by increases of $23.9 million in average brokered deposit balances, $20.5 million in interest bearing transaction accounts and $39.1 million in average other time deposit account balances.

Nonaccrual loans were $7.0 million, or 0.46% of total loans, at year end versus $13.8 million, or 1.02% of total loans, at the end of 2006. There were five relationships totaling $6.7 million classified as impaired as of December 31, 2007 versus five relationships totaling $13.3 million at the end of 2006. The decrease in impaired and nonperforming loans resulted from the transfer to other real estate of a single borrowing relationship, a residential and commercial real estate developer. Net charge-offs were $3.0 million in 2007 versus $955,000 in 2006, representing 0.21% and 0.08% of average daily loans in 2007 and 2006. Total nonperforming loans were $7.4 million, or 0.49% of total loans, at year end 2007 versus $14.1 million, or 1.04% of total loans, at the end of 2006. The provision for loan loss expense was $4.3 million in 2007, resulting in an allowance for loan losses at December 31, 2007 of $15.8 million, which represented 1.04% of the loan portfolio, versus a provision for loan loss expense of $2.6 million in 2006 and an allowance for loan losses of $14.5 million at the end of 2006, or 1.07% of the loan portfolio. The higher provision in 2007 versus 2006 was attributable to a number of factors, but was primarily a result of an increase in net charge-offs, general growth in the loan portfolio, as well as higher allocations on specific watch list credits. The level of loan loss provision was also influenced by other factors related to the growth in the loan portfolio, such as emerging market risk, commercial loan focus and large credit concentration, new industry lending activity, general economic conditions and historical loss percentages. In addition, management gave consideration to changes in the allocation for specific watch list credits in determining the appropriate level of the loan loss provision. Management's overall view on current credit quality was also a factor in the determination of the provision for loan losses. The Company's management continued to monitor the adequacy of the provision based on loan levels, asset quality, economic conditions and other factors that may influence the assessment of the collectability of loans.

Noninterest income was $20.2 million in 2007 versus $18.8 million in 2006, an increase of $1.4 million, or 7.7%. The 2007 increase was driven by a $592,000, or 23.2%, increase in wealth advisory fees. Additionally, noninterest income increased due to a $201,000, or 15.6%, increase in investment brokerage fees. Merchant card fee income increased due to higher volume activity in interchange and merchant fees as well as new business generation. Loan, insurance and service fees increased $191,000, or 8.3%, driven by higher fee income on debit card activity. Offsetting these increases was a decrease of $109,000, or 5.6%, in other income.

Noninterest expense increased $2.7 million, or 6.7%, from $40.2 million in 2006 to $42.9 million in 2007. Salaries and employee benefits increased by $1.4 million, or 6.4%, driven by normal salary increases and higher health care cost, which represented approximately $542,000 of the total increase. Data processing fees and supplies increased $449,000, or 18.3%, driven by higher data processing fees, software license fees and maintenance fees related to new services offered to clients. Net occupancy expense increased from $2.5 million in 2006 to $2.7 million in 2007, primarily as a result of higher maintenance and repair costs and higher property tax expense.

As a result of these factors, income before income tax expense decreased $658,000, or 2.3%, from $28.2 million in 2006 to $27.6 million in 2007. Income tax expense was $8.4 million in 2007 versus $9.5 million in 2006. Income tax as a percentage of income before tax was 30.3% in 2007 versus 33.7% in 2006. The decrease in the tax rate was driven by the formation of a captive real estate investment trust in the fourth quarter of 2006, which

provides the Company with an alternative vehicle for raising capital should the need arise. Additionally, the ownership structure of this real estate investment trust provided certain state income tax benefits which also lowered the Company's effective tax rate. Net income increased $490,000, or 2.6%, to $19.2 million in 2007 versus $18.7 million in 2006. Basic earnings per share in 2007 was $1.58, an increase of 1.9%, versus $1.55 in 2006. The Company's net income performance represented a 14.8% return on January 1, 2007, stockholders' equity versus 16.5% in 2006. The net income performance resulted in a 1.04% return on average daily assets in 2007 versus 1.10% in 2006.

FINANCIAL CONDITION

As of December 31, 2008, the Company had 43 offices serving twelve counties in northern Indiana and one loan production office in Indianapolis. Since 1996, the Company has added seventeen new offices through acquisition and internal growth. The Company will consider future acquisition and expansion opportunities with an emphasis on markets that it believes would be receptive to its business philosophy of client-focused, independent banking, as well as increased penetration in existing markets where opportunities for market share growth exist.

Total assets of the Company were $2.377 billion as of December 31, 2008, an increase of $388.3 million, or 19.5%, when compared to $1.989 billion as of December 31, 2007.

Total cash and cash equivalents decreased by $3.7 million, or 5.4%, to $64.0 million at December 31, 2008 from $67.7 million at December 31, 2007.

Total securities available for sale increased by $59.3 million, or 18.1%, to $387.0 million at December 31, 2008 from $327.8 million at December 31, 2007. The portfolio contains mostly collateralized mortgage obligations and other securities which are either directly or indirectly backed by the federal government or a local municipal government and collateralized mortgage obligations rated AAA by S&P or Aaa by Moody's at the time of purchase. As of December 31, 2008, the Company had $85.1 million of collateralized mortgage obligations which were not issued by the federal government or government sponsored agencies, but were rated AAA by S&P and/or Aaa by Moody's at the time of purchase. The investment portfolio did not contain any corporate debt instruments or trust preferred instruments as of December 31, 2008. The increase was a result of a number of activities in the securities portfolio. Paydowns from prepayments of $51.7 million were received, and the amortization of premiums, net of the accretion of discounts, was $41,000. Maturities and calls of securities totaled $14.8 million. These portfolio decreases were offset by securities purchases totaling $143.2 million. The fair value of the securities decreased $17.4 million due to the liquidity crisis that affected financial markets in 2008 and the current unsettled economic situation which resulted in lower market values for securities which were not backed directly or indirectly by the federal government (private label MBS). The investment portfolio is managed to provide for an appropriate balance between credit risk and investment return and to limit the Company's exposure to risk to an acceptable level.

Fourteen of the 24 private label MBS were still rated AAA/Aaa as of December 31, 2008, but ten were downgraded by S&P, Fitch and/or Moody's, including four which were ranked below investment grade by one or more rating agencies. The Company, with the assistance of an outside expert, analyzes projections for all of these securities that includes projections of future performance in the underlying collateral under various scenarios and under various prepayment assumptions. Based on the analyses as of December 31, 2008, the projections indicate that principal and interest payments expected to be collected over the life of the securities equaled or exceeded the current book value of these securities including interest, and no other than temporary impairment had been recorded as of the end of the year.

Real estate mortgages held for sale decreased by $136,000, or 25.3%, to $401,000 at December 31, 2008 from $537,000 at December 31, 2007. The balance of this asset category is subject to a high degree of variability depending on, among other things, recent mortgage loan rates and the timing of loan sales into the secondary market. During 2008, $41.0 million in real estate mortgages were originated for sale and $40.8 million in mortgages were sold, compared to $37.5 million and $38.9 million in 2007.

Total loans, excluding real estate mortgages held for sale, increased by $309.6 million, or 20.3%, to $1.833 billion at December 31, 2008 from $1.524 billion at December 31, 2007. The mix of loan types within the Company's portfolio continued a trend toward a higher percentage of the total loan portfolio being in commercial loans. This general increase in commercial loans is a result of the Company's long standing strategic focus toward emphasizing origination of commercial loans. The portfolio breakdown at year end 2008 reflected 84% commercial and industrial and agri-business, 13% residential real estate and home equity and 3% consumer loans compared to 82% commercial and industrial and agri-business, 15% residential real estate and home equity and 3% consumer loans at December 31, 2007.

At December 31, 2008, the allowance for loan losses was $18.9 million, or 1.03% of total loans outstanding, versus $15.8 million, or 1.04% of total loans outstanding at December 31, 2007. The process of identifying probable credit losses is a subjective process. Therefore, the Company maintains a general allowance to cover probable incurred credit losses within the entire portfolio. The methodology management uses to determine the adequacy of the loan loss reserve includes the following considerations.

The Company has a relatively high percentage of commercial and commercial real estate loans, most of which are extended to small- or medium-sized businesses. Commercial loans represent higher dollar loans to fewer customers and therefore higher credit risk than other types of loans. Pricing is adjusted to manage the higher credit risk associated with these types of loans. The majority of fixed rate mortgage loans, which represent increased interest rate risk, are sold in the secondary market, as well as some variable rate mortgage loans. The remainder of the variable rate mortgage loans and a small number of fixed rate mortgage loans are retained. Management believes the allowance for loan losses is at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions do not stabilize or improve, certain borrowers may experience difficulty and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision for loan losses.

Loans are charged against the allowance for loan losses when management believes that the principal is uncollectible. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that management believes will be adequate to absorb probable incurred credit losses relating to specifically identified loans based on an evaluation, as well as other probable incurred losses inherent in the loan portfolio. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrower’s ability to repay. Management also considers trends in adversely classified loans based upon a monthly review of those credits. An appropriate level of general allowance is determined after considering the following factors: application of historical loss percentages, emerging market risk, commercial loan focus and large credit concentrations, new industry lending activity and current economic conditions. Federal regulations require insured institutions to classify their own assets on a regular basis. The regulations provide for three categories of classified loans – substandard, doubtful and loss. The regulations also contain a special mention category. Special mention is defined as loans that do not currently expose an insured institution to a sufficient degree of risk to warrant classification, but do possess credit deficiencies or potential weaknesses deserving management’s close attention. Assets classified as substandard or doubtful require the institution to establish specific allowances for loan losses. If an asset or portion thereof is classified as loss, the insured institution must either establish specified allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge off such amount. At December 31, 2008, on the basis of management’s review of the loan portfolio, the Company had loans totaling $98.8 million on the classified loan list versus $79.3 million on December 31, 2007. As of December 31, 2008, the Company had $47.2 million of assets classified special mention, $46.2 million classified as substandard, $5.4 million classified as doubtful and $0 classified as loss as compared to $39.4 million, $39.7 million, $244,000 and $0 at December 31, 2007.

Allowance estimates are developed by management taking into account actual loss experience, adjusted for current economic conditions. The Company discusses this methodology with regulatory authorities to ensure compliance. Allowance estimates are considered a prudent measurement of the risk in the Company’s loan portfolio and are applied to individual loans based on loan type. In accordance with FASB Statements 5 and 114, the allowance is provided for losses that have been incurred as of the balance sheet date and is based on past events and current economic conditions, and does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. For a more thorough discussion of the allowance for loan losses methodology see the Critical Accounting Policies section of this Item.

The allowance for loan losses increased $3.1 million from $15.8 million December 31, 2007 to $18.9 million at December 31, 2008. Pooled loan allocations increased $2.1 million from $4.9 million at December 31, 2007 to $7.0 million at December 31, 2008, which was a result of an increase in pooled loan balances of $290.0 million year over year and an increase in commercial loan allocations due to the current economic environment. Specific loan allocations decreased $182,000 from $10.6 million at December 31, 2007 to $10.4 million at December 31, 2008. This decrease was primarily due to the payoffs received on previously classified commercial credits, charge-offs taken during 2008 as well as the well-collateralized nature of newly classified loans. The unallocated component of the allowance for loan losses increased $1.1 million from $322,000 at December 31, 2007 to $1.4 million at December 31, 2008 primarily due to the uncertainty in the current economic conditions.

The Company has experienced growth in total loans over the last three years of $634.6 million, or 52.9%. The concentration of this loan growth was in the commercial loan portfolio. Commercial loans comprised 84%, 82% and 80% of the total loan portfolio at December 31, 2008, 2007 and 2006. Traditionally, this type of lending may have more credit risk than other types of lending because of the size and diversity of the credits. The Company

manages this risk by adjusting its pricing to the perceived risk of each individual credit and by diversifying the portfolio by customer, product, industry and geography. Management has historically considered growth and portfolio composition when determining loan loss allocations. Management believes that it is prudent to continue to provide for loan losses in a manner consistent with its historical approach due to the loan growth described above and current economic conditions.

As a result of the methodology in determining the adequacy of the allowance for loan losses, the provision for loan losses was $10.2 million in 2008 versus $4.3 million in 2007. At December 31, 2008, total nonperforming loans increased by $13.8 million to $21.3 million from $7.4 million at December 31, 2007. Loans delinquent 90 days or more that were included in the accompanying financial statements as accruing totaled $478,000 versus $409,000 at December 31, 2007. Total impaired loans increased by $13.6 million to $20.3 million at December 31, 2008 from $6.7 million at December 31, 2007. The increase in impaired and nonperforming loans resulted from the addition of four commercial relationships totaling $14.4 million. The $20.3 million in impaired loans are all in nonaccrual status. The Company allocated $3.2 million and $2.3 million of the allowance for loan losses to the impaired loans in 2008 and 2007. A loan is impaired when full payment under the original loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Management believes that the regional economic conditions continue to worsen in the Company's markets and does not foresee a rapid recovery from this distressed economic environment. In addition, slow downs in certain industries, including residential and commercial real estate development, recreational vehicle and mobile home manufacturing and other regional industries are occurring. The Company believes that the impact of these industry-specific issues will be mitigated by its overall expansion strategy, which promotes diversification among industries as well as a continued focus on enforcement of a strong credit environment and an aggressive position on loan work-out situations. The allowance for loan loss to total loans percentage was 1.03% in 2008 and 1.04% in 2007. The Company's total nonperforming loans were 1.16% of total loans at year end 2008 versus 0.49% of total loans at the end of 2007. However, the Company's overall asset quality position can be influenced by a small number of credits due to the focus on commercial lending activity.

Total deposits increased by $406.4 million, or 27.5%, to $1.885 billion at December 31, 2008 from $1.479 billion at December 31, 2007. The increase resulted from increases of $165.1 million in brokered deposits, $151.6 million in interest bearing transaction accounts, $82.8 million in other certificates of deposit and $58.3 million in certificates of deposit of $100,000 and over. The increase in interest bearing transaction accounts was driven primarily by the addition of a new product, which pays a higher interest rate on balances up to a maximum balance amount when certain conditions are met during each interest cycle. These increases were offset by decreases of $24.6 million in demand deposits, $15.1 million in money market deposit accounts, $7.6 million in public fund certificates of deposit and $4.2 million in savings accounts.

Total short-term borrowings decreased by $113.6 million, or 35.9%, to $202.6 million at December 31, 2008 from $316.2 million at December 31, 2007. The decrease resulted from decreases of $51.0 million in federal funds purchased, $45.0 million in other short-term borrowings, primarily short-term advances from the Federal Home Loan Bank of Indianapolis, $17.1 million in securities sold under agreements to repurchase and $402,000 in U.S. Treasury demand notes. In addition, long-term borrowings increased by $90.0 million as a result of long-term advances from the Federal Home Loan Bank of Indianapolis.

The Company believes that a strong, appropriately managed capital position is critical to long-term earnings and expansion. Bank regulatory agencies exclude the market value adjustment created by SFAS No. 115 (AFS adjustment) from capital adequacy calculations. Excluding this adjustment from the calculation, the Company had a total risk-based capital ratio of 10.2% and a Tier I risk-based capital ratio of 9.3% as of December 31, 2008. These ratios met or exceeded the Federal Reserve's "well-capitalized" minimums of 10.0% and 6.0%, respectively. To further strengthen the Company's capital position, on February 27, 2009, the Company participated in Treasury's TARP Capital Purchase Program. Pursuant to the program, the Company issued to Treasury 56,044 shares of the Series A Preferred Stock and a warrant to purchase 396,538 shares of the Company's common stock. The $56.0 million received by the Company in connection with this investment qualifies as Tier 1 regulatory capital for the Company.

The ability to maintain these ratios is a function of the balance between net income and a prudent dividend policy. Total stockholders' equity increased by 2.5% to $149.9 million as of December 31, 2008 from $146.3 million as of December 31, 2007. The increase in 2008 resulted from net income of $19.7 million, as well as the following factors:

- cash dividends of $7.4 million,
- an unfavorable change in the AFS adjustment for the market valuation on securities held for sale of $10.4 million, net of tax,
- negative pension liability adjustment of $629,000, net of tax,
- $211,000 for the acquisition of treasury stock and
- $2.1 million related to stock option exercises.

Total stockholders' equity increased by 12.4% to $146.3 million as of December 31, 2007 from $130.2 million as of December 31, 2006. The increase in 2007 resulted from net income of $19.2 million, as well as the following factors:

- cash dividends of $6.6 million,
- a favorable change in the AFS adjustment for the market valuation on securities held for sale of $1.9 million, net of tax,
- positive minimum pension liability adjustment of $232,000, net of tax,
- $243,000 for the acquisition of treasury stock and
- $1.2 million related to stock option exercises.

The 2008 AFS adjustment was primarily related to a 574 basis point decrease in the two to five year U.S. Treasury rates during 2008. Management has factored this into the determination of the size of the AFS portfolio to assure that stockholders' equity is adequate under various scenarios.

Critical Accounting Policies

Certain of the Company's accounting policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Some of the facts and circumstances which could affect these judgments include changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses and the valuation of mortgage servicing rights.

Allowance for Loan Losses

The Company maintains an allowance for loan losses to provide for probable incurred credit losses. Loan losses are charged against the allowance when management believes that the principle is uncollectable. Subsequent recoveries, if any, are credited to the allowance. Allocations of the allowance are made for specific loans and for pools of similar types of loans, although the entire allowance is available for any loan that, in management's judgment, should be charged against the allowance. A provision for loan losses is taken based on management's ongoing evaluation of the appropriate allowance balance. A formal evaluation of the adequacy of the loan loss allowance is conducted at least monthly and more often if deemed necessary. The ultimate recovery of all loans is susceptible to future market factors beyond the Company's control.

The level of loan loss provision is influenced by growth in the overall loan portfolio, emerging market risk, emerging concentration risk, commercial loan focus and large credit concentration, new industry lending activity, general economic conditions and historical loss analysis. In addition, management gives consideration to changes in the allocation for specific watch list credits in determining the appropriate level of the loan loss provision. Furthermore, management's overall view on credit quality is a factor in the determination of the provision.

The determination of the appropriate allowance is inherently subjective, as it requires significant estimates. The Company has an established process to determine the adequacy of the allowance for loan losses that generally includes consideration of the following factors: changes in the nature and volume of the loan portfolio, overall portfolio quality and current economic conditions that may affect the borrowers' ability to repay. Consideration is not limited to these factors, although they represent the most commonly cited factors. With respect to specific allocation levels for individual credits, management generally considers the amounts and timing of expected future cash flows and the valuation of collateral as the primary measures. Management also considers trends in adversely classified loans based upon an ongoing review of those credits. With respect to pools of similar loans, we generally use percentage allocations based upon historical analysis. We may also adjust these allocations for other factors cited above. An appropriate level of general allowance for pooled loans is determined after considering the following: application of historical loss percentages, emerging market risk, commercial loan focus and large credit

concentration, new industry lending activity and general economic conditions. It is also possible that the following could affect the overall process: social, political, economic and terrorist events or activities. All of these factors are susceptible to significant change. As a result of this detailed process, the allowance results in two forms of allocations, specific and general. These two components represent the total allowance for loan losses deemed adequate to cover probable losses inherent in the loan portfolio.

Commercial loans are subject to a dual standardized grading process administered by the credit administration and internal loan review functions. A credit grade is assigned to each commercial loan by both the commercial loan officer and the loan review department. These grade assignments are performed independent of each other and a loan may or may not be graded the same. The grade given by the loan review department is the assigned in the Company's loan system for individual credits. The need for specific allocation of the loan loss reserve is considered for individual credits when graded special mention, substandard, doubtful or loss. Other considerations with respect to specific allocations for individual credits include, but are not limited to, the following: (a) does the customer's cash flow or net worth appear insufficient to repay the loan; (b) is there adequate collateral to repay the loan; (c) has the loan been criticized in a regulatory examination; (d) is the loan on non-accrual; (e) are there other reasons where the ultimate collectibility of the loan is in question; or (f) are there unique loan characteristics require special monitoring. Specific allowances are established in cases where management has identified significant conditions or circumstances related to an individual credit that we believe indicates the loan is impaired.

Allocations are also applied to categories of loans not considered individually impaired but for which the rate of loss is expected to be consistent with or greater than historical averages. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values. In addition, general allocations are made for other pools of loans, including non-classified loans. These general pooled loan allocations are performed for similar portfolios of consumer and residential real estate loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on a five-year historical average for loan losses for these portfolios, judgmentally adjusted for economic factors and portfolio trends.

Due to the imprecise nature of estimating the allowance for loan losses, the Company's allowance for loan losses includes an unallocated component. The unallocated component of the allowance for loan losses incorporates the Company's judgmental determination of inherent losses that may not be fully reflected in other allocations, including factors such as the level of classified credits, economic uncertainties, industry trends impacting specific portfolio segments, broad portfolio quality trends and trends in the composition of the Company's large commercial loan portfolio and related large dollar exposures to individual borrowers.

Mortgage Servicing Rights Valuation

The Company adopted SFAS No. 156 on January 1, 2007, and for sales of mortgage loans beginning in 2007, mortgage servicing rights (MSRs) are initially recognized as assets for the full fair value of retained servicing rights on loans sold. Subsequent measurement uses the amortization method where all servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to type and interest rate. Fair value is determined based upon discounted cash flows using market-based assumptions.

To determine the fair value of MSRs, the Company uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Company incorporates assumptions that market participants would use in estimating future net servicing income, which include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, late fees, and float income. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions.

The most significant assumption used to value MSRs is prepayment rate. In general, during periods of declining interest rates, the value of MSRs decline due to increasing prepayment speeds attributable to increased mortgage refinancing activity. Prepayment rates are estimated based on published industry consensus prepayment rates. Prepayments will increase or decrease in correlation with market interest rates and actual prepayments generally differ from initial estimates. If actual prepayment rates are different than originally estimated, the Company may receive less mortgage servicing income, which could reduce the value of the MSRs. Other assumptions used in estimating the fair value of MSRs do not generally fluctuate to the same degree as prepayment rates, and therefore the fair value of MSRs is less sensitive to changes in these other assumptions.

The servicing assets had a fair value of $2.1 million and $2.5 million at December 31, 2008 and 2007, respectively. At December 31, 2008, key economic assumptions and the sensitivity of the current fair value of mortgage servicing rights to an immediate 10% and 20% adverse changes in those assumptions are as follows:

Fair value of mortgage servicing assets	$	2,148
Constant prepayment speed (PSA)		287
Impact on fair value of 10% adverse change	$	(110)
Impact on fair value of 20% adverse change		(206)
Discount rate		9.4%
Impact on fair value of 10% adverse change	$	(54)
Impact on fair value of 20% adverse change		(107)

These sensitivities are hypothetical and should not be relied upon. As the figures indicate, changes in value based on a 10% and 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the value of the servicing asset is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which might magnify or counteract the sensitivities.

On a monthly basis, the Company evaluates the possible impairment of MSRs based on the difference between the carrying amount and the current fair value of MSRs. For purposes of evaluating and measuring impairment, the Company stratifies its portfolios on the basis of certain risk characteristics, including loan type and interest rate. If impairment exists, a valuation allowance is established for any excess of amortized cost over the current fair value, by risk stratification, through a charge to income. If the Company later determines that all or a portion of the impairment no longer exists for a particular strata, a reduction of the valuation allowance may be recorded as an increase to income.

Valuation of Investment Securities

The fair values of securities available for sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges or pricing models utilizing significant observable inputs such as matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities. Different judgments and assumptions used in pricing could result in different estimates of value.

At the end of each reporting period securities held in the investment portfolio are evaluated on an individual security level for other-than-temporary impairment in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. An impairment is other-than-temporary if the decline in the fair value of the security is below its amortized cost and it is probable that all amounts due according to the contractual terms of a debt security will not be received. Significant judgments are required in determining impairment, which include making assumptions regarding the estimated prepayments, loss assumptions and the change in interest rates.

We consider the following factors when determining an other-than-temporary impairment for a security or investment:

- The length of time and the extent to which the market value has been less than amortized cost;
- The financial condition and near-term prospects of the issuer;
- The underlying fundamentals of the relevant market and the outlook for such market for the near future; and
- Our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in market value.

For the private label mortgage-backed securities, additional analysis is performed to determine if an other-than-temporary impairment needs to be recorded for these securities. This analysis includes outside, third party assistance and includes projecting the cash flows of the individual securities using several different scenarios regarding collateral defaults, prepayment speeds, expected losses and the severity of potential losses.

If, in management’s judgment, an other-than-temporary impairment exists, the cost basis of the security will be written down to the then-current fair value, and the unrealized loss will be transferred from accumulated other comprehensive loss as an immediate reduction of current earnings (as if the loss had been realized in the

period of other than temporary impairment). In addition, discount accretion will be discontinued on any bond that meets one or both of the following: (1) the rating by S&P, Moody’s or Fitch decreases to below “A” and/or (2) the cash flow analysis on a security indicates under any scenario modeled there is a potential to not receive the full amount invested in the security.

Newly Issued But Not Yet Effective Accounting Standards

FASB Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* is effective for fiscal years beginning after December 15, 2008. SFAS No. 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company does not anticipate the adoption of this standard will have any material effect on the Company’s operating results or financial condition.

FASB Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing certain accounting and reporting standards requirements. The Company does not anticipate the adoption of this standard will have any material effect on the Company’s operating results or financial condition.

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161 (SFAS No. 161), “Disclosures about Derivative Instruments and Hedging Activities.” SFAS No. 161 establishes, among other things, the disclosure requirements for derivative instruments and for hedging activities. This Statement amends and expands the disclosure requirements of Statement 133 with the intent to provide users of financial statements with an enhanced understanding of: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. This Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company will adopt SFAS No. 161 on January 1, 2009, and does not expect the adoption to have a material impact on the financial statements.

No other new accounting standards have been issued that are not yet effective that are expected to have a significant impact on the Company’s financial condition or results of operations.

Liquidity

Management maintains a liquidity position that it believes will adequately provide funding for loan demand and deposit run-off that may occur in the normal course of business. The Company relies on a number of different sources in order to meet these potential liquidity demands. The primary sources are increases in deposit accounts and cash flows from loan payments and the securities portfolio. Given current prepayment assumptions, the cash flow from the securities portfolio is expected to provide approximately $85.3 million of funding in 2009.

In addition to these primary sources of funds, management has several secondary sources available to meet potential funding requirements. As of December 31, 2008, the Company had $180.0 million in Federal Funds lines with correspondent banks and may borrow up to $300.0 million at the Federal Home Loan Bank of Indianapolis. The Company had all of its securities in the available for sale (AFS) portfolio at December 31, 2008. Therefore, the Company may sell securities to meet funding demands. Management believes that the securities in the AFS portfolio are of high quality and would therefore be marketable. Approximately 64% of this portfolio is comprised of Federal agency securities or mortgage-backed securities directly or indirectly backed by the Federal government. In addition, the Company has historically sold the majority of its originated mortgage loans on the secondary market to reduce interest rate risk and to create an additional source of funding.

As a result of the unprecedented activity in the financial markets during the third and fourth quarters of 2008, the Company has reviewed its liquidity plan and has taken several actions designed to provide for an appropriate funding strategy in this unsettled environment. These actions include: actively communicating with correspondent banks who provide federal fund lines to ensure availability of these funds; expanded use of brokered

certificate of deposits, which have been readily available to the Company at competitive rates; allocation of collateral at the Federal Reserve Bank for potential borrowings under their programs; increased usage of FHLB advances at advantageous rates and an increased focus on attractive core deposit programs offered by the Company. The Company will have capacity at the Federal Reserve Bank of more than $500 million given current collateral structure and the terms of these facilities.

During 2008, cash and cash equivalents decreased $3.7 million from $67.7 million as of December 31, 2007 to $64.0 million as of December 31, 2008. The primary driver of this decrease was an increase in loan balances of $317.5 million, which is net of approximately $41.0 million of loans originated and sold in 2008. Other uses of funds included the purchase of securities of $143.2 million and a $113.6 million paydown of short-term borrowings. Sources of funds were proceeds from deposit increases of $406.4 million, proceeds from long-term borrowings of $90.0 million, proceeds from maturities, calls and principal paydowns of securities of $66.5 million and proceeds from loan sales of $41.5 million.

During 2007, cash and cash equivalents decreased $52.0 million from $119.7 million as of December 31, 2006 to $67.7 million as of December 31, 2007. The primary driver of this decrease was an increase in loan balances of $178.5 million, which is net of approximately $37.5 million of loans originated and sold in 2007. Another use of funds was purchases of securities of $104.0 million. Sources of funds were proceeds from short-term borrowings of $128.7 million, proceeds from maturities, calls and principal paydowns of securities of $43.6 million, proceeds from loan sales of $39.5 million and proceeds from the sale of securities of $31.6 million.

During 2006, cash and cash equivalents increased $37.0 million from $82.7 million as of December 31, 2005 to $119.7 million as of December 31, 2006. The primary driver of this increase was an increase in deposit balances of $209.5 million. Other sources of funds were proceeds from maturities, calls and principal paydowns of securities of $46.8 million and proceeds from loan sales of $37.7 million. The primary use of funds was a $156.1 million increase in net loans, which is net of approximately $38.6 million in loans originated and sold during 2006. Other uses of funds were purchases of securities of $74.2 million and payments on short-term borrowings of $24.1 million.

The following tables disclose information on the maturity of the Company’s contractual long-term obligations and commitments. Certificates of deposit listed are those with original maturities of 1 year or more.

	Payments Due by Period				
	Total	One year or less	1-3 years	4-5 years	After 5 years
	(in thousands)				
Certificates of deposit	$ 426,895	$ 355,103	$ 67,948	$ 3,734	$ 110
Long-term debt	90,043	50,000	25,000	15,000	43
Operating leases	43	34	9	0	0
Subordinated debentures	30,928	0	0	0	30,928
Total contractual long-term cash obligations	$ 547,909	$ 405,137	$ 92,957	$ 18,734	$ 31,081

	Amount of Commitment Expiration Per Period		
	Total Amount Committed	One year or less	Over one year
	(in thousands)		
Unused loan commitments	$ 770,746	$ 538,989	$ 231,757
Commercial letters of credit	1,165	1,165	0
Standby letters of credit	25,825	18,052	7,773
Total commitments and letters of credit	$ 797,736	$ 558,206	$ 239,530

Off-Balance Sheet Transactions

During the normal course of business, the Company becomes a party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These financial instruments include commitments to make loans and open-ended revolving lines of credit. The Company follows the same credit policy (including requiring collateral, if deemed appropriate) to make such commitments as is followed for those loans that are recorded in its financial statements.

The Company’s exposure to credit losses in the event of nonperformance is represented by the contractual amount of the commitments. Management does not expect any significant losses as a result of these commitments. Off-Balance Sheet transactions are more fully discussed in Note 19.

Inflation

The effects of price changes and inflation can vary substantially for most financial institutions. While management believes that inflation affects the growth of total assets, it believes that it is difficult to assess the overall impact. Management believes this to be the case due to the fact that generally neither the timing nor the magnitude of the inflationary changes in the consumer price index (“CPI”) coincides with changes in interest rates. The price of one or more of the components of the CPI may fluctuate considerably and thereby influence the overall CPI without having a corresponding affect on interest rates or upon the cost of those goods and services normally purchased by the Company. In years of high inflation and high interest rates, intermediate and long-term interest rates tend to increase, thereby adversely impacting the market values of investment securities, mortgage loans and other long-term fixed rate loans. In addition, higher short-term interest rates caused by inflation tend to increase the cost of funds. In other years, the reverse situation may occur.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Asset/Liability Management (ALCO) and Securities

Interest rate risk represents the Company's primary market risk exposure. The Company does not have material exposure to foreign currency exchange risk, does not own any significant derivative financial instruments and does not maintain a trading portfolio. The Board of Directors annually reviews and approves the ALCO policy used to manage interest rate risk. This policy sets guidelines for balance sheet structure, which are designed to protect the Company from the impact that interest rate changes could have on net income, but does not necessarily indicate the effect on future net interest income. Given the Company's mix of interest bearing liabilities and interest bearing assets on December 31, 2008, the net interest margin could be expected to decline in a falling interest rate environment and conversely, to increase in a rising rate environment. During 2008 in response to the deteriorating economic environment the FOMC lowered the target federal funds rate on ten separate occasions. The target federal funds rate was 4.25% at the beginning of 2008 and was a range of 0% to .25% as of December 31, 2008. The result of these actions was a reduction in the Company's yield on earning assets of 1.05%. The decrease in the yield on earning assets was offset by a decrease in the rates paid on deposit accounts. The rate paid on deposit accounts and purchased funds decreased from 3.77% for 2007 to 2.76% for 2008. The combined result of the decreases in the yield on earning assets and in the rates paid on deposits and purchased funds was a decrease in the net margin from 3.22% for 2007 to 3.14% for 2008. Future changes in the net interest margin will be dependent upon multiple factors including further actions by the FOMC during 2009 in response to economic conditions, competitive pressures in the various markets served, and changes in the structure of the balance sheet as a result of changes in customer demands for products and services.

The Company utilizes a computer program to stress test the balance sheet under a wide variety of interest rate scenarios. The model quantifies the income impact of changes in customer preference for products, basis risk between the assets and the liabilities that support them and the risk inherent in different yield curves, as well as other factors. The ALCO committee reviews these possible outcomes and makes loan, investment and deposit decisions that maintain reasonable balance sheet structure in light of potential interest rate movements. Although management does not consider GAP ratios in this planning, the information can be used in a general fashion to look at asset and liability mismatches. The Company's cumulative repricing GAP ratio as of December 31, 2008 for the next 12 months using a rates unchanged scenario was a negative 17.00% of earning assets.

The Company's investment portfolio consists of U.S. Treasury securities, agencies, mortgage-backed securities and municipal bonds. During 2008, purchases in the securities portfolio consisted primarily of agency securities, private label mortgage-backed securities and municipal bonds. As of December 31, 2008, the Company's investment in mortgage-backed securities represented approximately 81% of total securities, with 78% of the securities consisting of CMOs and mortgage pools issued by Ginnie Mae, Fannie Mae and Freddie Mac. Ginnie Mae, Fannie Mae and Freddie Mac securities are each guaranteed by their respective agencies as to principal and interest. The private label mortgage-backed securities (CMOs not issued by the government or government sponsored agencies) comprised approximately 22% of the total securities portfolio. These private label mortgage-backed securities are all super senior securities, were rated AAA or better at the time of purchase and met specific criteria established by the Asset Liability Management Committee of the Company. All mortgage securities purchased by the Company are within risk tolerances for price, prepayment, extension and original life risk characteristics contained in the Company's investment policy. The Company uses Bloomberg analytics to evaluate and monitor all purchases. As of December 31, 2008, the securities in the AFS portfolio had approximately a five and one-half year average life with approximately 15% price depreciation in the event of a 300 basis points upward movement. The portfolio had approximately 5% price appreciation in the event of a 300 basis point downward movement in rates. As of December 31, 2008, all mortgage-backed securities were performing in a manner consistent with management's original ALCO modeled expectations.

The following table provides information regarding the Company's financial instruments used for purposes other than trading that are sensitive to changes in interest rates. For loans, securities and liabilities with contractual maturities, the tables present principal cash flows and related weighted-average interest rates by contractual maturities, as well as the Company's historical experience of the impact of interest-rate fluctuations on the prepayment of residential and home equity loans and mortgage-backed securities. Core deposits such as deposits, interest-bearing checking, savings and money market deposits that have no contractual maturity, are shown under Year 1, however historical experience indicates that some portion of the balances are retained over time. Weighted-average variable rates are based upon rates existing at the reporting date.

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2008
Principal/Notional Amount Maturing in:
(in thousands)

	Year 1	Year 2	Year 3	Year 4	Year 5	Thereafter	Total	Fair Value 12/31/2008
Rate sensitive assets:								
Fixed interest rate loans	$ 233,791	$ 154,216	$ 127,716	$ 121,875	$ 165,540	$ 62,159	$ 865,297	$ 882,148
Average interest rate	6.19%	6.55%	6.63%	6.52%	5.92%	6.32%	6.32%	
Variable interest rate loans	$ 655,893	$ 69,715	$ 46,169	$ 26,468	$ 31,962	$ 137,830	$ 968,037	$ 964,679
Average interest rate	3.37%	3.26%	3.49%	3.26%	3.26%	3.26%	3.34%	
Fixed interest rate securities	$ 205,454	$ 78,307	$ 29,830	$ 16,545	$ 10,998	$ 62,914	$ 404,048	$ 386,859
Average interest rate	5.46%	6.30%	7.04%	5.36%	5.62%	5.25%	5.75%	
Variable interest rate securities	$ 169	$ 0	$ 0	$ 0	$ 0	$ 0	$ 169	$ 171
Average interest rate	5.98%	0.00%	0.00%	0.00%	0.00%	0.00%	5.98%	
Other interest-bearing assets	$ 6,858	$ 0	$ 0	$ 0	$ 0	$ 0	$ 6,858	$ 6,858
Average interest rate	0.58%	0.00%	0.00%	0.00%	0.00%	0.00%	0.58%	
Rate sensitive liabilities:								
Non-interest bearing checking	$ 230,716	$ 0	$ 0	$ 0	$ 0	$ 0	$ 230,716	$ 230,716
Average interest rate								
Savings & interest bearing checking	$ 656,239	$ 0	$ 0	$ 0	$ 0	$ 0	$ 656,239	$ 656,239
Average interest rate	1.08%	0.00%	0.00%	0.00%	0.00%	0.00%	1.08%	
Time deposits	$ 849,234	$ 88,286	$ 46,850	$ 7,229	$ 6,209	$ 536	$ 998,344	$ 1,013,798
Average interest rate	3.38%	4.03%	4.53%	4.47%	4.25%	4.25%	3.51%	
Fixed interest rate borrowings	$ 70,288	$ 0	$ 25,000	$ 0	$ 15,000	$ 43	$ 110,331	$ 114,291
Average interest rate	2.80%	0.00%	4.61%	0.00%	4.49%	6.15%	3.44%	
Variable interest rate borrowings	$ 182,321	$ 0	$ 0	$ 0	$ 0	$ 30,928	$ 213,249	$ 213,283
Average interest rate	3.53%	0.00%	0.00%	0.00%	0.00%	1.41%	1.15%	

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS (in thousands except share data)

December 31	**2008**	2007
ASSETS		
Cash and due from banks	**$ 57,149**	$ 56,278
Short-term investments	**6,858**	11,413
Total cash and cash equivalents	**64,007**	67,691
Securities available for sale (carried at fair value)	**387,030**	327,757
Real estate mortgage loans held for sale	**401**	537
Loans, net of allowance for loan losses of $18,860 and $15,801	**1,814,474**	1,507,919
Land, premises and equipment, net	**30,519**	27,525
Bank owned life insurance	**33,966**	21,543
Accrued income receivable	**8,599**	9,126
Goodwill	**4,970**	4,970
Other intangible assets	**413**	619
Other assets	**33,066**	21,446
Total assets	**$ 2,377,445**	$ 1,989,133
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Noninterest bearing deposits	**$ 230,716**	$ 255,348
Interest bearing deposits	**1,654,583**	1,223,570
Total deposits	**1,885,299**	1,478,918
Short-term borrowings		
Federal funds purchased	**19,000**	70,010
Securities sold under agreements to repurchase	**137,769**	154,913
U.S. Treasury demand notes	**840**	1,242
Other short-term borrowings	**45,000**	90,000
Total short-term borrowings	**202,609**	316,165
Accrued expenses payable	**17,163**	15,497
Other liabilities	**1,523**	1,311
Long-term borrowings	**90,043**	44
Subordinated debentures	**30,928**	30,928
Total liabilities	**2,227,565**	1,842,863
Commitments, off-balance sheet risks and contingencies (Notes 1 and 19)		
STOCKHOLDERS' EQUITY		
Common stock: 90,000,000 shares authorized, no par value 12,373,080 shares issued and 12,266,849 outstanding as of December 31, 2008 12,207,723 shares issued and 12,111,703 outstanding as of December 31, 2007	**1,453**	1,453
Additional paid-in capital	**20,632**	18,078
Retained earnings	**141,371**	129,090
Accumulated other comprehensive loss	**(12,024)**	(1,010)
Treasury stock, at cost (2008 - 106,231 shares, 2007 - 96,020 shares)	**(1,552)**	(1,341)
Total stockholders' equity	**149,880**	146,270
Total liabilities and stockholders' equity	**$ 2,377,445**	$ 1,989,133

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (in thousands except share and per share data)

Years Ended December 31	2008	2007	2006
NET INTEREST INCOME			
Interest and fees on loans			
Taxable	$ 99,538	$ 102,840	$ 91,946
Tax exempt	113	137	279
Interest and dividends on securities			
Taxable	16,202	11,591	10,123
Tax exempt	2,411	2,474	2,405
Interest on short-term investments	220	931	798
Total interest income	118,484	117,973	105,551
Interest on deposits	44,580	53,614	45,101
Interest on borrowings			
Short-term	5,620	7,239	5,594
Long-term	5,016	2,564	2,529
Total interest expense	55,216	63,417	53,224
NET INTEREST INCOME	63,268	54,556	52,327
Provision for loan losses	10,207	4,298	2,644
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	53,061	50,258	49,683
NONINTEREST INCOME			
Wealth advisory fees	3,278	3,142	2,550
Investment brokerage fees	1,872	1,491	1,290
Service charges on deposit accounts	8,603	7,238	7,260
Loan, insurance and service fees	2,811	2,483	2,292
Merchant card fee income	3,471	3,286	2,943
Other income	1,826	1,837	1,946
Net gains on sales of real estate mortgage loans held for sale	786	676	581
Net securities gains/(losses)	39	89	(68)
Gain on redemption of Visa shares	642	0	0
Total noninterest income	23,328	20,242	18,794
NONINTEREST EXPENSE			
Salaries and employee benefits	25,482	23,817	22,378
Net occupancy expense	3,082	2,734	2,510
Equipment costs	1,941	1,906	1,799
Data processing fees and supplies	3,645	3,096	2,626
Credit card interchange	2,321	2,204	1,988
Other expense	11,010	9,166	8,941
Total noninterest expense	47,481	42,923	40,242
INCOME BEFORE INCOME TAX EXPENSE	28,908	27,577	28,235
Income tax expense	9,207	8,366	9,514
NET INCOME	$ 19,701	$ 19,211	$ 18,721
BASIC WEIGHTED AVERAGE COMMON SHARES	12,271,927	12,188,594	12,069,300
BASIC EARNINGS PER COMMON SHARE	$ 1.61	$ 1.58	$ 1.55
DILUTED WEIGHTED AVERAGE COMMON SHARES	12,459,802	12,424,137	12,375,467
DILUTED EARNINGS PER COMMON SHARE	$ 1.58	$ 1.55	$ 1.51

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (in thousands except share and per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2006	$ 1,453	$ 14,287	$ 102,327	$ (3,814)	$ (919)	$ 113,334
Comprehensive income:						
Net income			18,721			18,721
Other comprehensive income, net of tax				1,084		1,084
Comprehensive income						19,805
Adjustment to initially apply SFAS No. 158, net of tax of $305				(448)		(448)
Cash dividends declared, $.375 per share			(4,532)			(4,532)
Treasury shares purchased under deferred directors' plan (9,361 shares)		210			(210)	0
Stock issued for stock option exercises (145,700 shares)		1,148				1,148
Tax benefit of stock option exercises		692				692
Stock option expense		188				188
Balance at December 31, 2006	1,453	16,525	116,516	(3,178)	(1,129)	130,187
Comprehensive income:						
Net income			19,211			19,211
Other comprehensive income, net of tax				2,168		2,168
Comprehensive income						21,379
Cash dividends declared, $.545 per share			(6,637)			(6,637)
Treasury shares purchased under deferred directors' plan (10,557 shares)		243			(243)	0
Treasury stock sold and distributed under deferred directors' plan (1,322 shares)		(31)			31	0
Stock issued for stock option exercises (98,117 shares, net of 8,202 shares redeemed)		771				771
Tax benefit of stock option exercises		396				396
Stock option expense		174				174
Balance at December 31, 2007	1,453	18,078	129,090	(1,010)	(1,341)	146,270
Comprehensive income:						
Net income			**19,701**			**19,701**
Other comprehensive income (loss), net of tax				**(11,029)**		**(11,029)**
Comprehensive income						**8,672**
Cash dividends declared, $.605 per share			**(7,417)**			**(7,417)**
Treasury shares purchased under deferred directors' plan (10,211 shares)		**211**			**(211)**	**0**
Stock issued for stock option exercises (165,357 shares)		**1,354**				**1,354**
Tax benefit of stock option exercises		**756**				**756**
Stock option expense		**233**				**233**
Adjustment to initially apply measurement date provision of SFAS No. 158, net of tax of $8 (Note 12)			**(3)**	**15**		**12**
Balance at December 31, 2008	**$ 1,453**	**$ 20,632**	**$ 141,371**	**$ (12,024)**	**$ (1,552)**	**$ 149,880**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands)

Years Ended December 31	2008	2007	2006
Cash flows from operating activities:			
Net income	$ 19,701	$ 19,211	$ 18,721
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	1,940	1,721	1,650
Provision for loan losses	10,207	4,298	2,644
Write down of other real estate owned	285	127	0
Amortization of intangible assets	206	206	209
Amortization of loan servicing rights	399	416	454
Net change in loan servicing rights valuation allowance	(23)	(49)	(67)
Loans originated for sale	(41,000)	(37,539)	(38,614)
Net gain on sales of loans	(786)	(676)	(581)
Proceeds from sale of loans	41,544	39,526	37,683
Net gain on sale of Visa redemption shares	(642)	0	0
Net (gain) loss on sale of premises and equipment	(10)	1	(14)
Net (gain) loss on securities available for sale	(39)	(89)	68
Net securities amortization (accretion)	(41)	473	1,743
Stock compensation expense	233	174	188
Earnings on life insurance	(965)	(810)	(755)
Tax benefit of stock option exercises	(756)	(396)	(692)
Net change:			
Accrued income receivable	527	(406)	(1,304)
Accrued expenses payable	564	3,770	1,183
Other assets	(2,326)	1,858	(2,152)
Other liabilities	334	1,216	(171)
Total adjustments	9,651	13,821	1,472
Net cash from operating activities	29,352	33,032	20,193
Cash flows from investing activities:			
Proceeds from sale of securities available for sale	0	31,612	21,634
Proceeds from maturities, calls and principal paydowns of securities available for sale	66,527	43,628	46,794
Purchases of securities available for sale	(143,153)	(104,007)	(74,240)
Purchase of life insurance	(11,458)	(163)	(161)
Net increase in total loans	(317,454)	(178,171)	(156,133)
Proceeds from sales of land, premises and equipment	114	85	210
Purchases of land, premises and equipment	(5,038)	(4,155)	(2,460)
Proceeds from sales of other real estate owned	120	11	0
Net cash from investing activities	(410,342)	(211,160)	(164,356)
Cash flows from financing activities:			
Net increase in total deposits	406,381	3,153	209,520
Net increase (decrease) in short-term borrowings	(113,556)	128,681	(24,058)
Proceeds from long-term borrowings	90,000	0	0
Payments on long-term borrowings	(1)	(1)	(1)
Dividends paid	(7,417)	(6,637)	(5,908)
Proceeds from stock option exercise	2,110	1,167	1,840
Purchase of treasury stock	(211)	(243)	(210)
Net cash from financing activities	377,306	126,120	181,183
Net change in cash and cash equivalents	(3,684)	(52,008)	37,020
Cash and cash equivalents at beginning of the year	67,691	119,699	82,679
Cash and cash equivalents at end of the year	$ 64,007	$ 67,691	$ 119,699
Cash paid during the year for:			
Interest	$ 56,508	$ 59,822	$ 51,937
Income taxes	8,445	8,427	11,205
Supplemental non-cash disclosures:			
Loans transferred to other real estate	692	5,328	71

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation:

The consolidated financial statements include Lakeland Financial Corporation and its wholly-owned subsidiary, Lake City Bank (the “Bank”), together referred to as (the “Company”). Also included in the consolidated financial statements prior to December 27, 2006 is LCB Investments, Limited, a wholly-owned subsidiary of Lake City Bank, which was a Bermuda corporation that managed a portion of the Bank’s investment portfolio. On December 27, 2006, all securities were transferred to Lake City Bank from LCB Investments, Limited. On December 18, 2006, LCB Investments II, Inc. was formed as a wholly owned subsidiary of Lake City Bank incorporated in Nevada to manage a portion of the Bank’s investment portfolio beginning in 2007. On December 21, 2006 LCB Funding, Inc., a real estate investment trust incorporated in Maryland, was formed as a wholly-owned subsidiary of LCB Investments II, Inc. All intercompany transactions and balances are eliminated in consolidation.

The Company provides financial services through its subsidiary, Lake City Bank, a full-service commercial bank with 43 branch offices in twelve counties in northern Indiana. The Company also operates a loan production office in Indianapolis, which is staffed by a commercial loan officer and was opened in 2006. The Company provides commercial, retail, trust and investment services to its customers. Commercial products include commercial loans and technology-driven solutions to meet commercial customers’ treasury management needs such as internet business banking and on-line treasury management services. Retail banking clients are provided a wide array of traditional retail banking services, including lending, deposit and investment services. Retail lending programs are focused on mortgage loans, home equity lines of credit and traditional retail installment loans. The Company provides credit card services to retail and commercial customers through its retail card program and merchant processing activity. The Company also has an Honors Private Banking program that is positioned to serve the more financially sophisticated customer with a menu including brokerage and trust services, executive mortgage programs and access to financial planning seminars and programs. The Company provides trust clients with traditional personal and corporate trust services. The Company also provides retail brokerage services, including an array of financial and investment products such as annuities and life insurance. Other financial instruments, which represent potential concentrations of credit risk, include deposit accounts in other financial institutions.

Use of Estimates:

To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided and future results could differ. The allowance for loan losses, the fair values of financial instruments and the fair value of loan servicing rights are particularly subject to change.

Cash Flows:

Cash and cash equivalents include cash, demand deposits in other financial institutions and short-term investments with maturities of 90 days or less. Cash flows are reported net for customer loan and deposit transactions.

Securities:

Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax. Trading securities are bought for sale in the near term and are carried at fair value, with changes in unrealized holding gains and losses included in income. Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity.

Purchase premiums or discounts are recognized in interest income using the interest method over the terms of the securities or over estimated lives for mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold and recorded on the trade date. Securities are written down to fair value when a decline in fair value is deemed to be other than temporary, as more fully discussed in Note 2.

The Company does not have any material derivative instruments, nor does the Company participate in any significant hedging activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Real Estate Mortgage Loans Held for Sale:

Loans held for sale are reported at the lower of cost or market on an aggregate basis. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Loan sales occur on the delivery date agreed to in the commitment agreement. The Company retains servicing on the majority of loans sold. The carrying value of loans sold is reduced by the amount allocated to the servicing right. The gain or loss on the sale of loans is the difference between the carrying value of the loans sold and the funds received from the sale.

Loans:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. All mortgage and commercial loans for which collateral is insufficient to cover all principal and accrued interest are reclassified as nonaccrual loans, on or before the date when the loan becomes 90 days delinquent. When a loan is classified as a nonaccrual loan, interest on the loan is no longer accrued, all unpaid accrued interest is reversed and interest income is subsequently recorded only to the extent cash payments are received. Accrual status is resumed when all contractually due payments are brought current and future payments are reasonably assured. Consumer installment loans, except those loans that are secured by real estate, are not placed on a nonaccrual status since these loans are charged-off when they have been delinquent from 90 to 180 days, and when the related collateral, if any, is not sufficient to offset the indebtedness. Advances under consumer line of credit programs, are charged-off when collection appears doubtful.

Allowance for Loan Losses:

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the principle of the loan is uncollectable of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The Company has an established process to determine the adequacy of the allowance for loan losses that generally includes consideration of the following factors: changes in the nature and volume of the loan portfolio, overall portfolio quality and current economic conditions that may affect the borrowers' ability to repay. Consideration is not limited to these factors, although they represent the most commonly cited factors. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as special mention, substandard, doubtful or loss on the Company's watch list. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the original loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage and consumer loans, and on an individual loan basis for other loans. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. If a loan is impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Mortgage and commercial loans, when they have been delinquent from 90 to 180 days, are reviewed to determine if a charge-off is necessary, if the related collateral, if any, is not sufficient to offset the indebtedness.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in Limited Partnerships:

Investments in limited partnerships represent the Company's investments in affordable housing projects for the primary purpose of available tax benefits. The Company is a limited partner in these investments and as such, the Company is not involved in the management or operation of such investments. These investments are accounted for using the equity method of accounting. Under the equity method of accounting, the Company records its share of the partnership's earnings or losses in its income statement and adjusts the carrying amount of the investments on the balance sheet. These investments are evaluated for impairment when events indicate the carrying amount may not be recoverable. The investment recorded at December 31, 2008 and 2007 was $606,000 and $334,000 and is included with other assets in the balance sheet.

Foreclosed Assets:

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. At December 31, 2008 and 2007, the balance of repossessed assets and real estate owned was $1.1 million and $2.4 million and are included with other assets on the balance sheet.

Land, Premises and Equipment:

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the useful lives of the assets. Premises assets have useful lives between 7 and 40 years. Equipment assets have useful lives between 3 and 7 years.

Loan Servicing Rights:

The Company adopted SFAS No. 156 on January 1, 2007, and for sales of mortgage loans beginning in 2007, loan servicing rights are initially recognized as assets for the full fair value of retained servicing rights on loans sold with the income statement effect recorded in gains on sales of real estate mortgage loans held for sale. Subsequent measurement uses the amortization method where all loan servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues.

Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to loan type, term and interest rates. Any impairment of a grouping is reported as a valuation allowance. Fair value is calculated on a loan by loan basis and is determined based upon discounted cash flows using market-based assumptions, specifically prepayment speeds, discount rates, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, late fees, and float income.

Servicing fee income/(loss), amortization and changes in the valuation allowance are included in loan, insurance and service fees. Fees earned for servicing loans are based on a contractual percentage of the outstanding principal. Late fees and ancillary fees related to loan servicing are not material.

Bank Owned Life Insurance:

At December 31, 2008 and 2007, the Company owned $33.5 million and $20.8 million of life insurance policies on certain officers to provide life insurance for these officers. At December 31, 2008 and 2007 the Company also owned $510,000 and $719,000 of variable life insurance on certain officers related to a deferred compensation plan. Bank owned life insurance is recorded at the amount that can be realized, which is the cash surrender value adjusted, in accordance with EITF 06-05, for other changes or other amounts due that are probable at settlement.

Goodwill and Other Intangible Assets:

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other intangible assets consist of core deposit intangibles arising from branch acquisitions and trust deposit relationships arising from a trust acquisition. Core deposit intangibles are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which is 12 years. Trust deposit relationships are initially measured at fair value and then amortized on an accelerated method over their estimated useful lives, which is 10 years.

Federal Home Loan Bank and Federal Reserve Bank Stock:

Federal Home Loan Bank and Federal Reserve Bank stock is carried at cost in other assets and is periodically evaluated for impairment based on ultimate recoverability of par value. Both cash and stock dividends are reported as income.

Repurchase Agreements:

Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Long-term Assets:

Premises and equipment, core deposit and other intangible assets and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Benefit Plans:

The Company maintains a 401(k) profit sharing plan for all employees meeting age and service requirements. The Company contributions are based upon the percentage of budgeted net income earned during the year. The Company has a noncontributory defined benefit pension plan which covered substantially all employees until the plan was frozen effective April 1, 2000. Funding of the plan equals or exceeds the minimum funding requirement determined by the actuary. Pension expense is the net of interest cost, return on plan assets and amortization of gains and losses not immediately recognized. Benefits are based on years of service and compensation levels. An employee deferred compensation plan is available to certain employees with returns based on investments in mutual funds. The Company maintains a directors' deferred compensation plan. Effective January 1, 2003, the directors' deferred compensation plan was amended to restrict the deferral to be in stock only and deferred directors' fees are included in equity. The Company acquires shares on the open market and records such shares as treasury stock.

Stock Compensation:

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Income Taxes:

Annual consolidated federal and state income tax returns are filed by the Company. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Income tax expense is recorded based on the amount of taxes due on its tax return plus net deferred taxes computed based upon the expected future tax consequences of temporary differences between carrying amounts and tax basis of assets and liabilities, using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company adopted FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, as of January 1, 2007. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no affect on the Company's financial statements.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Off-Balance Sheet Financial Instruments:

Financial instruments include credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. The fair value of standby letters of credit is recorded as a liability during the commitment period in accordance with FASB Interpretation No. 45.

Earnings Per Common Share:

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Earnings and dividends per share are restated for all stock splits and dividends through the date of issue of the financial statements. The common shares included in Treasury Stock for 2008 and 2007 reflect the acquisition of 106,231 and 96,020 shares, respectively, of Lakeland Financial Corporation common stock that have been purchased under the directors' deferred compensation plan described above. Because these shares are held in trust for the participants, they are treated as outstanding when computing the weighted-average common shares outstanding for the calculation of both basic and diluted earnings per share.

Comprehensive Income:

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale during the year and changes in defined benefit pension plans, which are also recognized as a separate component of equity.

The components of other comprehensive income and related tax effects are as follows:

	Years Ended December 31,		
	2008	2007	2006
	(in thousands)		
Unrealized holding gain/(loss) on securities available for sale arising during the period	**$ (17,394)**	$ 3,272	$ 1,188
Reclassification adjustment for (gains)/losses included in net income	**(39)**	(89)	68
Net securities gain /(loss) activity during the period	**(17,433)**	3,183	1,256
Tax effect	**7,048**	(1,247)	(267)
Net of tax amount	**(10,385)**	1,936	989
Net gain (loss) on defined benefit pension plans	**(1,179)**	277	160
Amortization of net actuarial loss	**113**	114	0
Net gain/(loss) activity during the period	**(1,066)**	391	160
Tax effect	**422**	(159)	(65)
Net of tax amount	**(644)**	232	95
Other comprehensive income/(loss), net of tax	**$ (11,029)**	$ 2,168	$ 1,084

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss Contingencies:

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash:

The Company was required to have $7.2 million and $5.7 million of cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements at year-end 2008 and 2007.

Dividend Restriction:

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to its shareholders. These restrictions pose no practical limit on the ability of the Bank or Company to pay dividends at historical levels. In addition, as a result of the Company's participation in the TARP Capital Purchase Program, the Company may not increase the quarterly dividends it pays on the Company's common stock above $0.155 per share for three years, without the consent of Treasury, unless Treasury no longer holds shares of the Series A Preferred Stock.

Fair Value of Financial Instruments:

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 18. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Industry Segments:

The Company's chief decision-makers monitor and evaluate financial performance on a Company-wide basis. All of the Company's financial service operations are similar and considered by management to be aggregated into one reportable operating segment. While the Company has assigned certain management responsibilities by region and business-line, the Company's chief decision-makers monitor and evaluate financial performance on a Company-wide basis. The majority of the Company's revenue is from the business of banking and the Company's assigned regions have similar economic characteristics, products, services and customers. Accordingly, all of the Company's operations are considered by management to be aggregated in one reportable operating segment.

Adoption of New Accounting Standards:

The Company adopted FASB Statement of Financial Accounting Standards No. 157 (SFAS No. 157), "Fair Value Measurements"on January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. This Statement clarifies that market participant assumptions should include assumptions about risk as well as the effect of a restriction on the sale or use of an asset. Additionally, this Statement establishes a fair value hierarchy that provides the highest priority to quoted prices in active markets and the lowest priority to unobservable data. In February 2008, Financial Accounting Standards Board Staff Position (FSP) No. 157-2, "Effective Date of FASB Statement No. 157," was issued that delayed the application of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, until January 1, 2009. The Company adopted the provisions of SFAS No. 157 except for those nonfinancial assets and nonfinancial liabilities subject to deferral as a result of FSP No. 157-2. The adoption of SFAS No. 157 did not have any material effect on the Company's operating results or financial condition.

On October 10, 2008, the FASB issued FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3)". FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective immediately upon issuance, and includes prior periods for which financial statements have not been issued. The Company's adoption of FSP 157-3 did not have any material effect on the Company's operating results or financial condition.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company adopted FASB Statement of Financial Accounting Standards No. 159 (SFAS No. 159), "The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115" on January 1, 2008. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company did not elect the fair value option for any financial assets or liabilities as of December 31, 2008.

Emerging Issues Task Force (EITF) Issue 06-04, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* is effective for fiscal years beginning after December 15, 2007, with earlier adoption permitted. EITF Issue 06-04 requires that for an endorsement split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits in accordance with Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee and all available evidence should be considered in determining the substance of the arrangement, such as the explicit written terms of the arrangement, communications made by the employer to the employee, and the determination of whether the employer or the insurer is the primary obligor for the postretirement benefit. The Company does not have any postretirement benefit on endorsement split-dollar life insurance and therefore the adoption of this standard did not have any material effect on the Company's operating results or financial condition.

The Company adopted Staff Accounting Bulletin No. 109 (SAB No. 109), "Written Loan Commitments Recorded at Fair Value through Earnings" which supersedes SAB 105, "Application of Accounting Principles to Loan Commitments" which stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 states that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also states that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. The adoption of this standard did not have any material effect on the Company's operating results or financial condition.

In December 2007, the SEC issued SAB No. 110, which expresses the views of the SEC regarding the use of a "simplified" method, as discussed in SAB 107, in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123(R), Share-Based Payment. The SEC concluded that a company could, under certain circumstances, continue to use the simplified method for share option grants after December 31, 2007. The Company does not use the simplified method for share options and therefore SAB No. 110 has no impact on the Company's consolidated financial statements.

Newly Issued But Not Yet Effective Accounting Standards:

FASB Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* is effective for fiscal years beginning after December 15, 2008. SFAS No. 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company does not anticipate the adoption of this standard will have any material effect on the Company's operating results or financial condition.

FASB Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* is effective for fiscal years beginning after December 15, 2008. SFAS No. 160 improves the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing certain accounting and reporting standards requirements. The Company does not anticipate the adoption of this standard will have any material effect on the Company's operating results or financial condition.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161 (SFAS No. 161), “Disclosures about Derivative Instruments and Hedging Activities.” SFAS No. 161 establishes, among other things, the disclosure requirements for derivative instruments and for hedging activities. This Statement amends and expands the disclosure requirements of Statement 133 with the intent to provide users of financial statements with an enhanced understanding of: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. This Statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company will adopt SFAS No. 161 on January 1, 2009, and does not expect the adoption to have a material impact on the financial statements.

FASB Staff Position (FSP) No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* is effective for interim and annual reporting periods beginning after December 15, 2008, and shall be applied prospectively. FSP EITF 99-20-1retains and emphasizes the other-than-temporary impairment assessment guidance and required disclosures in Statement 115, FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, SEC Staff Accounting Bulletin (SAB) Topic 5M, *Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities*, and other related literature. The Company does not anticipate the adoption of this standard will have any material effect on the Company’s operating results or financial condition.

No other new accounting standards have been issued that are not yet effective that are expected to have a significant impact on the Company’s financial condition or results of operations.

Reclassifications:

Certain amounts appearing in the financial statements and notes thereto for prior periods have been reclassified to conform with the current presentation. The reclassifications had no effect on net income or stockholders’ equity as previously reported.

NOTE 2 - SECURITIES

Information related to the fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) at December 31 is provided in the tables below.

	Fair Value	Gross Unrealized Gain	Gross Unrealized Losses
	(in thousands)		
2008			
U.S. Treasury securities	**$ 1,025**	**$ 24**	**$ 0**
U.S. Government agencies	**15,685**	**232**	**0**
Mortgage-backed securities	**314,669**	**3,907**	**(21,920)**
State and municipal securities	**55,651**	**970**	**(400)**
Total	**$ 387,030**	**$ 5,133**	**$ (22,320)**
2007			
U.S. Treasury securities	$ 1,206	$ 5	$ 0
U.S. Government agencies	18,555	48	(32)
Mortgage-backed securities	250,495	1,210	(1,873)
State and municipal securities	57,501	1,037	(149)
Total	$ 327,757	$ 2,300	$ (2,054)

NOTE 2 – SECURITIES (continued)

Information regarding the fair value of available for sale debt securities by maturity as of December 31, 2008 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without prepayment penalty.

	Fair Value
	(in thousands)
Due in one year or less	$ 12,546
Due after one year through five years	8,184
Due after five years through ten years	33,618
Due after ten years	18,013
	72,361
Mortgage-backed securities	314,669
Total debt securities	$ 387,030

Security proceeds, gross gains and gross losses for 2008, 2007 and 2006 were as follows:

	2008	2007	2006
	(in thousands)		
Sales of securities available for sale			
Proceeds	**$ 0**	$ 31,612	$ 21,634
Gross gains	**0**	219	78
Gross losses	**0**	130	146

There were no security sales in 2008. All of the gains and losses were from calls or maturities.

Securities with carrying values of $289.7 million and $239.5 million were pledged as of December 31, 2008 and 2007, as collateral for deposits of public funds, securities sold under agreements to repurchase, borrowings from the FHLB and for other purposes as permitted or required by law.

Information regarding securities with unrealized losses as of December 31, 2008 and 2007 is presented below. The tables distribute the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
2008						
U.S. Treasury securities	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**
U.S. Government agencies	**0**	**0**	**0**	**0**	**0**	**0**
Mortgage-backed securities	**97,113**	**15,362**	**26,080**	**6,558**	**123,193**	**21,920**
State and municipal securities	**14,663**	**373**	**877**	**27**	**15,540**	**400**
Total temporarily impaired	**$ 111,776**	**$ 15,735**	**$ 26,957**	**$ 6,585**	**$ 138,733**	**$ 22,320**
2007						
U.S. Treasury securities	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
U.S. Government agencies	0	0	12,890	32	12,890	32
Mortgage-backed securities	45,424	740	98,068	1,133	143,492	1,873
State and municipal securities	9,595	132	1,734	17	11,329	149
Total temporarily impaired	$ 55,019	$ 872	$ 112,692	$ 1,182	$ 167,711	$ 2,054

NOTE 2 – SECURITIES (continued)

The number of securities with unrealized losses as of December 31, 2008 and 2007 is presented below.

	Less than 12 months	12 months or more	Total
2008			
U.S. Treasury securities	**0**	**0**	**0**
U.S. Government agencies	**0**	**0**	**0**
Mortgage-backed securities	**31**	**17**	**48**
State and municipal securities	**37**	**2**	**39**
Total temporarily impaired	**68**	**19**	**87**
2007			
U.S. Treasury securities	0	0	0
U.S. Government agencies	0	4	4
Mortgage-backed securities	12	46	58
State and municipal securities	20	18	38
Total temporarily impaired	32	68	100

All of the following are considered to determine whether or not the impairment of these securities is other-than-temporary. Seventy-eight percent of the securities are backed by the U.S. Government, government agencies, government sponsored agencies or are A rated or better, except for certain non-local municipal securities. Mortgage-backed securities which are not issued by the U.S. Government or government sponsored agencies (private label mortgage-backed securities) met specific criteria set by the Asset Liability Management Committee at their time of purchase, including having the highest rating available by either Moody's or S&P. None of the securities have call provisions (with the exception of the municipal securities) and payments as originally agreed are being received. For the government, government-sponsored agency and municipal securities there are no concerns of credit losses and there is nothing to indicate that full principal will not be received. Management considers the unrealized losses on these securities to be primarily interest rate driven and no loss is expected to be realized unless the securities are sold.

For the private label mortgage-backed securities, additional analysis is performed to determine if the impairment is temporary or other-than-temporary in which case impairment would need to be recorded for these securities. This analysis includes outside, third party assistance and includes projecting the cash flows of the individual securities using several different scenarios regarding collateral defaults, prepayment speeds, expected losses and the severity of potential losses. As of December 31, 2008, the Company had $85.1 million of collateralized mortgage obligations which were not issued by the federal government or government sponsored agencies, but were rated AAA by S&P and/or Aaa by Moody's at the time of purchase. Fourteen of the 24 private label MBS were still rated AAA/Aaa as of December 31, 2008, but ten were downgraded by S&P, Fitch and/or Moody's, including four which were ranked below investment grade by one or more rating agencies. Based upon this analysis the Company expects to collect all principal and interest amounts and does not believe any other-than-temporary impairment needs to be recorded.

The Company does not have a history of actively trading securities, but keeps the securities available for sale should liquidity or other needs develop that would warrant the sale of securities. While these securities are held in the available for sale portfolio, the current intent and ability is to hold them until a recovery in fair value or maturity.

NOTE 3 - LOANS

Total loans outstanding as of year-end consisted of the following:

	2008	2007
	(in thousands)	
Commercial and industrial loans	$ **1,201,611**	$ 968,336
Commercial real estate multifamily loans	**25,428**	16,839
Commercial real estate construction loans	**116,970**	84,498
Agri-business and agricultural loans	**189,007**	170,921
Residential real estate mortgage loans	**117,230**	124,107
Home equity loans	**128,219**	108,429
Installment loans and other consumer loans	**55,102**	50,516
Subtotal	**1,833,567**	1,523,646
Less: Allowance for loan losses	**(18,860)**	(15,801)
Net deferred loan (fees)/costs	**(233)**	74
Loans, net	$ **1,814,474**	$ 1,507,919

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

The following is an analysis of the allowance for loan losses for 2008, 2007 and 2006:

	2008	2007	2006
		(in thousands)	
Balance, January 1,	$ **15,801**	$ 14,463	$ 12,774
Provision for loan losses	**10,207**	4,298	2,644
Loans charged-off	**(7,606)**	(3,392)	(1,072)
Recoveries	**458**	432	117
Net loans charged-off	**(7,148)**	(2,960)	(955)
Balance December 31	$ **18,860**	$ 15,801	$ 14,463

	2008	2007	2006
Nonaccrual loans	$ **20,810**	$ 7,039	$ 13,820
Interest not recorded on nonaccrual loans	**897**	1,033	776
Loans past due 90 days and still accruing	**478**	409	299

As of December 31, 2008, 2007 and 2006 there were no loans renegotiated as troubled debt restructurings.

Impaired loans were as follows:

	2008	2007
	(in thousands)	
Year-end loans with no allocated allowance for loan losses	$ **0**	$ 0
Year-end loans with allocated allowance for loan losses	**20,304**	6,748
	$ **20,304**	$ 6,748
Amount of the allowance for loan losses allocated	$ **3,228**	$ 2,343

	2008	2007	2006
		(in thousands)	
Average of impaired loans during the year	$ **15,316**	$ 11,773	$ 8,915
Interest income recognized during impairment	**34**	14	0
Cash-basis interest income recognized	**11**	8	0

NOTE 4 - ALLOWANCE FOR LOAN LOSSES (continued)

The Company is not committed to lend additional funds to debtors whose loans have been modified in a troubled debt restructuring. For December 31, 2008 and 2007 the total for impaired loans were also included in the total for nonaccrual loans. Total impaired loans increased by $13.6 million to $20.3 million at December 31, 2008 from $6.7 million at December 31, 2007. The increase in impaired and nonaccrual loans resulted from the addition of four commercial relationships totaling $14.4 million. The majority of the balance of nonperforming and impaired loans at December 2007 is a single commercial credit of $4.2 million. As of December 31, 2008, this credit was not included in the balance of nonperforming and impaired loans.

NOTE 5 - SECONDARY MORTGAGE MARKET ACTIVITIES

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans were $248.8 million and $245.3 million at December 31, 2008 and 2007. Loan servicing income/(loss) excluding adjustments to the valuation allowance included in loan, insurance and service fees was $620,000, $621,000 and $619,000 for 2008, 2007 and 2006. Late fees and ancillary fees are not material. Information on loan servicing rights, which are included in other assets, follows:

	2008	2007	2006
		(in thousands)	
Loan servicing rights:			
Carrying amount at beginning of year	**$ 1,677**	$ 1,766	$ 1,923
Originations	**379**	327	297
Amortization	**(399)**	(416)	(454)
Carrying amount before valuation allowance	**$ 1,657**	$ 1,677	$ 1,766

	2008	2007	2006
		(in thousands)	
Valuation allowance:			
Beginning of year	**$ 69**	$ 118	$ 185
Provisions/(recoveries)	**(23)**	(49)	(67)
End of year	**46**	69	118
Carrying amount at end of year	**$ 1,611**	$ 1,608	$ 1,648
Fair value at beginning of the year	**$ 2,483**	$ 2,397	$ 2,604
Fair value at the end of the year	**$ 2,148**	$ 2,483	$ 2,397

Fair value at year end 2008 was determined using weighted average discount rates 9.4%, a weighted average constant prepayment rate of 17.2% and a weighted average default rate of .32%. Fair value at year end 2007 was determined using a weighted average discount rate of 9.4%, a weighted average constant prepayment rate of 13.1% and a weighted average default rate of .33%.

NOTE 6 - LAND, PREMISES AND EQUIPMENT, NET

Land, premises and equipment and related accumulated depreciation were as follows at December 31:

	2008	2007
	(in thousands)	
Land	**$ 9,932**	$ 9,866
Premises	**24,747**	24,209
Equipment	**17,186**	13,879
Total cost	**51,865**	47,954
Less accumulated depreciation	**21,346**	20,429
Land, premises and equipment, net	**$ 30,519**	$ 27,525

NOTE 7 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

There have been no changes in the $5.0 million carrying amount of goodwill since 2002.

Acquired Intangible Assets

	As of December 31, 2008 (in thousands)		As of December 31, 2007 (in thousands)	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Core deposit	$ 2,032	$ 1,883	$ 2,032	$ 1,735
Trust deposit relationships	572	308	572	250
Total	$ 2,604	$ 2,191	$ 2,604	$ 1,985

Aggregate amortization expense was $206,000, $206,000 and $209,000 for 2008, 2007 and 2006.

Estimated amortization expense for each of the next five years:

	Amount (in thousands)
2009	$ 206
2010	54
2011	54
2012	52
2013	47

NOTE 8 – DEPOSITS

The aggregate amount of time deposits, each with a minimum denomination of $100,000, was approximately $637.6 million and $384.3 million at December 31, 2008 and 2007.

At December 31, 2008, the scheduled maturities of time deposits were as follows:

	Amount (in thousands)
Maturing in 2009	$ 849,035
Maturing in 2010	88,285
Maturing in 2011	47,050
Maturing in 2012	7,229
Maturing in 2013	6,209
Thereafter	536
Total time deposits	$ 998,344

NOTE 9 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase ("repo accounts") represent collateralized borrowings with customers located primarily within the Company's service area. Repo accounts are not covered by federal deposit insurance and are secured by securities owned. Information on these liabilities and the related collateral for 2008 and 2007 is as follows:

	2008	2007
	(in thousands)	
Average daily balance during the year	**$ 153,363**	$ 121,372
Average interest rate during the year	**1.85%**	3.52%
Maximum month-end balance during the year	**$ 175,427**	$ 154,913
Securities underlying the agreements at year-end		
Fair value	**$ 187,911**	$ 160,272

Term	Repurchase Liability	Weighted Average Interest Rate	Collateral at Fair Values
	(in thousands)		(in thousands)
Mortgage-backed securities:			
On demand	**$ 137,321**	**0.43%**	**$ 186,666**
31- to 90 days	**139**	**1.75%**	**386**
Over 90 days	**309**	**0.30%**	**859**
Total	**$ 137,769**	**0.43%**	**$ 187,911**

The Company retains the right to substitute similar type securities, and has the right to withdraw all collateral applicable to repo accounts whenever the collateral values are in excess of the related repurchase liabilities. At December 31, 2008, there were no material amounts of securities at risk with any one customer. The Company maintains control of these securities through the use of third-party safekeeping arrangements.

NOTE 10 – BORROWINGS

Long-term borrowings at December 31 consisted of:

	2008	2007
	(in thousands)	
Federal Home Loan Bank of Indianapolis Notes, 3.71%, Due January 12, 2009	**$ 50,000**	$ 0
Federal Home Loan Bank of Indianapolis Notes, 4.61%, Due June 13, 2011	**25,000**	0
Federal Home Loan Bank of Indianapolis Notes, 4.49%, Due May 6, 2013	**15,000**	0
Federal Home Loan Bank of Indianapolis Notes, 6.15%, Due January 15, 2018	**43**	44
Total	**$ 90,043**	$ 44

Long-term borrowings mature over each of the next five years as follows:

	(in thousands)
2009	$ 50,000
2010	0
2011	25,000
2012	0
2013	15,000

NOTE 10 – BORROWINGS (continued)

Other short-term borrowings at December 31 consisted of:

	2008	2007
	(in thousands)	
Federal Home Loan Bank of Indianapolis Notes, 4.58%, Due January 14, 2008	**$ 0**	$ 30,000
Federal Home Loan Bank of Indianapolis Notes, 3.75%, Due February 26, 2008	**0**	60,000
Federal Home Loan Bank of Indianapolis Notes, 0.65%, Due March 4, 2009	**45,000**	0
Total	**$ 45,000**	$ 90,000

All Federal Home Loan Bank (FHLB) notes require monthly interest payments and were secured by residential real estate loans and securities with a carrying value of $291.0 million at December 31, 2008. At December 31, 2008, the Company owned $9.8 million of FHLB stock, which also secures debts to the FHLB. The Company is authorized to borrow up to $300 million at the FHLB.

NOTE 11 – SUBORDINATED DEBENTURES

Lakeland Statutory Trust II, a trust formed by the Company, issued $30.0 million of floating rate trust preferred securities on October 1, 2003 as part of a privately placed offering of such securities. The Company issued subordinated debentures to the trust in exchange for the proceeds of the trust. Subject to the Company having received prior approval of the Federal Reserve if then required, the Company may redeem the subordinated debentures, in whole or in part, but in all cases in a principal amount with integral multiples of $1,000, on any interest payment date on or after October 1, 2008 at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures must be redeemed no later than 2033. These securities are considered as Tier I capital (with certain limitations applicable) under current regulatory guidelines. The floating rate of the trust preferred securities and subordinated debentures was 4.509%, 7.880% and 8.410% at December 31, 2008, 2007 and 2006. The holding company's investment in the common stock of the trust was $928,000 and is included in other assets.

NOTE 12 - EMPLOYEE BENEFIT PLANS

In April, 2000, the Lakeland Financial Corporation Pension Plan was frozen. The Company also maintains a Supplemental Executive Retirement Plan (SERP) for select officers that was established as a funded, non-qualified deferred compensation plan. No current officers of the Company are participants in the SERP plan and there are 7 total participants. The measurement date for both the pension and SERP plans is December 31 for 2008 and September 30 for 2007.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans – an amendment of FASB No. 87, 88, 106 and 132 (R)*. This Statement requires that defined benefit plan assets and obligations are to be measured as of the date of the employer's fiscal year-end, starting in 2008. Through 2007, the Company utilized the early measurement date option available under FASB Statement No. 87 "Employers' Accounting for Pensions", and measured the funded status of the defined benefit plan assets and obligations as of September 30 each year. In accordance with the adoption provisions, the net periodic benefit cost for the period between the September 30 measurement date and the 2008 fiscal year end measurement were allocated proportionately between amounts to be recognized as an adjustment to retained earnings and net periodic benefit cost for the fiscal year. As a result of this adoption, the Company increased January 1, 2008 opening retained earnings by $1,000, decreased deferred income tax assets by $5,000, decreased the pension liability by $13,000 and credited the accumulated other comprehensive income for $7,000 for the pension plan and reduced January 1, 2008 opening retained earnings by $4,000, decreased deferred income tax assets by $4,000, decreased the SERP liability by $7,000 and credited the accumulated other comprehensive income for $7,000 for the SERP plan.

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

Information as to the Company's plans at December 31 is as follows:

	Pension Benefits		SERP Benefits	
	2008	2007	**2008**	2007
	(in thousands)		(in thousands)	
Change in benefit obligation:				
Beginning benefit obligation	**$ 2,398**	$ 2,514	**$ 1,299**	$ 1,362
Interest cost	**175**	142	**92**	75
Actuarial (gain)/loss	**146**	(76)	**53**	(4)
Benefits paid	**(377)**	(182)	**(166)**	(134)
Ending benefit obligation	**2,342**	2,398	**1,278**	1,299
Change in plan assets (primarily equity and fixed income investments and money market funds), at fair value:				
Beginning plan assets	**2,407**	2,182	**1,282**	1,192
Actual return	**(416)**	303	**(219)**	165
Employer contribution	**0**	104	**13**	59
Benefits paid	**(377)**	(182)	**(166)**	(134)
Ending plan assets	**1,614**	2,407	**910**	1,282
Funded status at end of year	**$ (728)**	$ 9	**$ (368)**	$ (17)

Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits		SERP Benefits	
	2008	2007	**2008**	2007
	(in thousands)		(in thousands)	
Funded status included in other liabilities	**$ (728)**	$ 9	**$ (368)**	$ (17)

Amounts recognized in accumulated other comprehensive income consist of:

	Pension Benefits		SERP Benefits	
	2008	2007	**2008**	2007
	(in thousands)		(in thousands)	
Net actuarial loss	**$ 2,103**	$ 1,372	**$ 947**	$ 620

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

The accumulated benefit obligation for the pension plan was $2.3 million and $2.4 million for December 31, 2008 and 2007 respectively. The accumulated benefit obligation for the SERP plan was $1.3 million for both December 31, 2008 and 2007.

Net pension expense includes the following:

	Pension Benefits			SERP Benefits		
Net pension expense	**2008**	2007	2006	**2008**	2007	2006
	(in thousands)			(in thousands)		
Service cost	**$ 0**	$ 0	$ 0	**$ 0**	$ 0	$ 0
Interest cost	**140**	142	144	**73**	75	75
Expected return on plan assets	**(193)**	(178)	(167)	**(100)**	(93)	(93)
Recognized net actuarial (gain) loss	**50**	57	44	**64**	57	53
Net pension expense	**$ (3)**	$ 21	$ 21	**$ 37**	$ 39	$ 35
Net loss/(gain)	**$ 794**	$ (201)	$ 0	**$ 406**	$ (76)	$ 0
Amortization of net loss	**(50)**	(57)	0	**(63)**	(57)	0
Change in minimum pension liability	**0**	0	(160)	**0**	0	0
Total recognized in other comprehensive income	**$ 744**	$ (258)	$ (160)	**$ 343**	$ (133)	$ 0
FAS 158 Adjustment	**(13)**	0	0	**(16)**	0	0
Total recognized in net pension expense and other comprehensive income	**$ 728**	$ (237)	$ (139)	**$ 364**	$ (94)	$ 35

The estimated net loss (gain) for the defined benefit pension plan and SERP plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $94,000 for the pension plan and $46,000 for the SERP plan.

Additional Information:

	Pension Benefits			SERP Benefits		
	2008	2007	2006	**2008**	2007	2006
	(in thousands)			(in thousands)		
The following assumptions were used in calculating the net benefit obligation:						
Weighted average discount rate	**5.50%**	6.00%	5.75%	**5.50%**	6.00%	5.75%
Rate of increase in future compensation	**N/A**	N/A	N/A	**N/A**	N/A	N/A
The following assumptions were used in calculating the net pension expense:						
Weighted average discount rate	**6.00%**	5.75%	5.50%	**6.00%**	5.75%	5.50%
Rate of increase in future compensation	**N/A**	N/A	N/A	**N/A**	N/A	N/A
Expected long-term rate of return	**8.25%**	8.25%	8.25%	**8.25%**	8.25%	8.25%

The expected long-term rate of return on plan assets is developed in consultation with the plan actuary. It is primarily based upon industry trends and consensus rates of return which are then adjusted to reflect the specific asset allocations and historical rates of return of the Company’s plan assets.

NOTE 12 - EMPLOYEE BENEFIT PLANS (continued)

The asset allocations at the measurement dates of December 31, 2008 and September 30, 2007, by asset category are as follows:

	Pension Plan Assets		SERP Plan Assets	
Asset Category	**2008**	2007	**2008**	2007
Equity securities	**46%**	62%	**40%**	62%
Debt securities	**36%**	24%	**42%**	29%
Other	**18%**	14%	**18%**	9%
Total	**100%**	100%	**100%**	100%

The Company's investment strategies are to invest in a prudent manner for the purpose of providing benefits to participants. The investment strategies are targeted to maximize the total return of the portfolio net of inflation, spending and expenses. Risk is controlled through diversification of asset types and investments in domestic and international equities and fixed income securities. Certain asset types and investment strategies are prohibited including: commodities, options, futures, short sales, margin transactions and non-marketable securities. The target allocation is 60% equities and 40% debt securities although acceptable ranges are: 55-65% equities and 35-45% debt securities. Due to the overall decline in equity values during the fourth quarter of 2008, the actual year-end asset mix fell outside of the target allocations.

Contributions

The Company expects to contribute $250,000 to its pension plan and $136,000 to its SERP plan in 2009.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

Plan Year	**Pension Benefits**	**SERP Benefits**
	(in thousands)	
2009	$ 111	$ 137
2010	116	134
2011	124	131
2012	128	128
2013	130	124
2014-2018	745	550

Other Employee Benefit Plans

The Company maintains a 401(k) profit sharing plan for all employees meeting age and service requirements. The Company contributions are based upon the percentage of budgeted net income earned during the year. The expense recognized was $1.0 million, $858,000 and $836,000 in 2008, 2007 and 2006.

Effective January 1, 2004, the Company adopted the Lake City Bank Deferred Compensation Plan. The purpose of the deferred compensation plan is to extend full 401(k) type retirement benefits to certain individuals without regard to statutory limitations under tax qualified plans. The expense recognized was ($394,000), $83,000 and $49,000 in 2008, 2007 and 2006. The benefit recognized in 2008 relates to the significant decline in the indices utilized to calculate the returns on the participant contributions. The plan is funded solely by participant contributions and does not receive a company match.

Under employment agreements with certain executives, certain events leading to separation from the Company could result in cash payments totaling $3.5 million as of December 31, 2008. On December 31, 2008, no amounts were accrued on these contingent obligations.

NOTE 13 - OTHER EXPENSE

Other expense for the years ended December 31, was as follows:

	2008	2007	2006
	(in thousands)		
Corporate and business development	**$ 1,298**	$ 1,508	$ 1,458
Advertising	**442**	304	603
Office supplies	**630**	496	562
Telephone and postage	**1,457**	1,219	1,151
Regulatory fees and FDIC insurance	**1,434**	336	302
Professional fees	**2,123**	1,548	1,453
Amortization of other intangible assets	**206**	206	209
Courier and delivery	**227**	299	395
Miscellaneous	**3,193**	3,250	2,808
Total other expense	**$ 11,010**	$ 9,166	$ 8,941

NOTE 14 - INCOME TAXES

Income tax expense for the years ended December 31, consisted of the following:

	2008	2007	2006
	(in thousands)		
Current federal	**$ 7,545**	$ 8,456	$ 8,391
Deferred federal	**981**	(69)	(852)
Current state	**0**	0	1,496
Deferred state	**(75)**	(417)	(213)
Tax benefit of stock options	**756**	396	692
Total income tax expense	**$ 9,207**	$ 8,366	$ 9,514

Income tax expense included ($15,000), ($36,000) and ($25,000) applicable to security transactions for 2008, 2007 and 2006. The differences between financial statement tax expense and amounts computed by applying the statutory federal income tax rate of 35% for 2008, 2007 and 2006 to income before income taxes were as follows:

	2008	2007	2006
	(in thousands)		
Income taxes at statutory federal rate	**$ 10,118**	$ 9,652	$ 9,882
Increase (decrease) in taxes resulting from:			
Tax exempt income	**(867)**	(898)	(918)
Nondeductible expense	**202**	273	343
State income tax, net of federal tax effect	**124**	(224)	897
Net operating loss	**(30)**	(30)	(30)
Tax credits	**(71)**	(82)	(82)
Bank owned life insurance	**(368)**	(340)	(317)
Reserve for unrecognized tax benefits	**60**	0	0
Other	**39**	15	(261)
Total income tax expense	**$ 9,207**	$ 8,366	$ 9,514

NOTE 14 - INCOME TAXES (continued)

The net deferred tax asset recorded in the consolidated balance sheets at December 31, consisted of the following:

	2008		2007	
	Federal	**State**	Federal	State
	(in thousands)			
Deferred tax assets:				
Bad debts	**$ 6,601**	**$ 1,491**	$ 5,268	$ 1,187
Pension and deferred compensation liability	**325**	**73**	391	88
Net operating loss carryforward	**59**	**249**	89	349
Nonaccrual loan interest	**321**	**73**	533	120
Other	**293**	**45**	198	24
	7,599	**1,931**	6,479	1,768
Deferred tax liabilities:				
Accretion	**129**	**21**	138	20
Depreciation	**1,741**	**143**	886	89
Loan servicing rights	**564**	**127**	563	127
State taxes	**471**	**0**	445	0
Leases	**49**	**11**	56	13
Deferred loan fees	**64**	**15**	38	9
Intangible assets	**913**	**206**	766	173
FHLB stock dividends	**118**	**27**	118	26
REIT spillover dividend	**1,086**	**0**	0	0
Prepaid expenses	**153**	**34**	177	39
	5,288	**584**	3,187	496
Valuation allowance	**0**	**0**	0	0
Net deferred tax asset	**$ 2,311**	**$ 1,347**	$ 3,292	$ 1,272

In addition to the net deferred tax assets included above, the deferred income tax asset/liability allocated to the unrealized net gain/loss on securities available for sale included in equity was $7.0 million and ($71,000) for 2008 and 2007. The deferred income tax asset allocated to the pension liability included in equity was $1.2 million and $807,000 for 2008 and 2007.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the year ended December 31, 2008 when reserves began is as follows:

	2008
	(in thousands)
Balance January 1	**$ 0**
Additions based on tax positions related to the current year	**60**
Additions for tax positions of prior years	**0**
Reductions for tax positions of prior years	**0**
Reductions due to the statute of limitations	**0**
Settlements	**0**
Balance at December 31	**$ 60**

The balance of $60,000 at December 31, 2008 represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

NOTE 14 - INCOME TAXES (continued)

No interest or penalties were recorded in the income statement and no amount was accrued for interest and penalties for the period ending December 31, 2008 and 2007. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is the Company's policy to record such accruals in its income taxes accounts.

The Company and its subsidiaries file a consolidated U.S. federal tax return and a combined unitary return in the State of Indiana. These returns are subject to examinations by authorities for all years after 2004.

NOTE 15 - RELATED PARTY TRANSACTIONS

Loans to principal officers, directors, and their affiliates as of December 31, 2008 and 2007 were as follows:

	2008	2007
	(in thousands)	
Beginning balance	**$ 48,794**	$ 50,426
New loans and advances	**84,435**	97,917
Effect of changes in related parties	**(13,930)**	(4,284)
Repayments	**(87,372)**	(95,265)
Ending balance	**$ 31,927**	$ 48,794

Deposits from principal officers, directors, and their affiliates at year-end 2008 and 2007 were $2.9 million and $1.7 million. In addition, the amount owed directors for fees under the deferred directors' plan as of December 31, 2008 and 2007 was $1.6 million and $1.4 million. The related expense for the deferred directors' plan as of December 31, 2008, 2007 and 2006 was $305,000, $267,000 and $266,000.

NOTE 16 - STOCK OPTIONS

Effective December 9, 1997, the Company adopted the Lakeland Financial Corporation 1997 Share Incentive Plan, which was shareholder approved. At its inception there were 1,200,000 shares of common stock reserved for grants of stock options to employees of Lakeland Financial Corporation, its subsidiaries and Board of Directors. The plan expired on December 8, 2007 and therefore there were no options available for future grants as of December 31, 2007. Effective April 8, 2008, the Company adopted the Lakeland Financial Corporation 2008 Equity Incentive Plan, which is shareholder approved. At its inception there were 750,000 shares of common stock reserved for grants of stock options, stock appreciation rights, stock awards and cash incentive awards to employees of Lakeland Financial Corporation, its subsidiaries and Board of Directors. As of December 31, 2008, 691,000 were available for future grants. The stock option plan requires that the exercise price for options be the market price on the date the options are granted. The maximum option term is ten years and the options usually vest over 5 years. Certain option awards provide for accelerated vesting if there is a change in control. The Company has a policy of issuing new shares to satisfy option exercises.

Included in net income for the years ended December 31, 2008, 2007 and 2006 was employee stock compensation expense of $233,000, $174,000 and $188,000, and a related tax benefit of $94,000, $70,000 and $76,000 respectively.

NOTE 16 - STOCK OPTIONS (continued)

The fair value of each option award is estimated with the Black Scholes option pricing model, using the following weighted-average assumptions as of the grant date for options granted during the years presented. Expected volatilities are based on historical volatility of the Company's stock over the immediately preceding expected life period, as well as other factors known on the grant date that would have a significant effect on the stock price during the expected life period. For grants in 2006, the expected option life used was primarily the average of the vesting period of the option and the years to expiration of the option. For grants in 2007 and 2008, the expected option life used was the historical option life of the similar employee base or Board of Directors. The turnover rate is based on historical data of the similar employee base as a group and the Board of Directors as a group. The risk-free interest rate is the U.S. Treasury rate on the date of grant corresponding to the expected life period of the option.

	2008	2007	2006
Risk-free interest rate	**3.42%**	4.46%	4.56%
Expected option life	**6.71years**	5.50years	6.11years
Expected price volatility	**34.23%**	35.49%	31.51%
Dividend yield	**3.35%**	3.40%	2.22%

A summary of the activity in the stock option plan as of December 31, 2008 and changes during the period then ended follows:

	Shares	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (years)**	**Aggregate Intrinsic Value**
Outstanding at beginning of the year	**506,513**	**$ 11.16**		
Granted	**59,000**	**24.01**		
Exercised	**(165,357)**	**8.25**		
Forfeited	**(400)**	**17.19**		
Outstanding at end of the year	**399,756**	**$ 14.25**	**4.3**	**$ 3,845,689**
Options exercisable at end of the year	**288,756**	**$ 10.95**	**2.8**	**$ 3,717,644**

The weighted-average grant-date fair value of options granted during the periods ended December 31, 2008, 2007 and 2006 was $6.45, $7.05 and $6.59. The total intrinsic value of options exercised during the periods ended December 31, 2008, 2007 and 2006 was $2.4 million, $1.4 million and $2.2 million, respectively.

There were no modifications of awards during the periods ended December 31, 2008, 2007 and 2006.

Cash received from option exercise for the periods ending December 31, 2008, 2007 and 2006 was $1.4 million, $771,000 and $1.1 million, respectively. The actual tax benefit realized for the tax deductions from option exercise totaled $756,000, $396,000 and $692,000, respectively for the periods ended December 31, 2008, 2007 and 2006.

As of December 31, 2008, there was $476,000 of total unrecognized compensation cost related to nonvested stock options granted under the plan. That cost is expected to be recognized over a weighted-average period of 3.70 years.

NOTE 17 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS

The Company and Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008 and 2007, that the Company and Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2008, the most recent notification from the federal regulators categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company and Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company’s or Bank’s category.

	Actual		MinimumRequired For Capital Adequacy Purposes		Minimum Required to BeWellCapitalized UnderPromptCorrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
As of December 31, 2008:						
Total Capital (to Risk Weighted Assets)			$			
Consolidated	**$ 205,210**	**10.20%**	**$ 160,938**	**8.00%**	**$ 201,173**	**10.00%**
Bank	**$ 203,133**	**10.10%**	**$ 160,874**	**8.00%**	**$ 201,092**	**10.00%**
Tier I Capital (to Risk Weighted Assets)						
Consolidated	**$ 186,350**	**9.26%**	**$ 80,469**	**4.00%**	**$ 120,704**	**6.00%**
Bank	**$ 184,273**	**9.16%**	**$ 80,437**	**4.00%**	**$ 120,655**	**6.00%**
Tier I Capital (to Average Assets)						
Consolidated	**$ 186,350**	**8.10%**	**$ 92,010**	**4.00%**	**$ 115,012**	**5.00%**
Bank	**$ 184,273**	**7.97%**	**$ 92,469**	**4.00%**	**$ 115,587**	**5.00%**
As of December 31, 2007:						
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 187,323	11.51%	$ 130,196	8.00%	$ 162,746	10.00%
Bank	$ 185,580	11.41%	$ 130,156	8.00%	$ 162,694	10.00%
Tier I Capital (to Risk Weighted Assets)						
Consolidated	$ 171,521	10.54%	$ 65,098	4.00%	$ 97,647	6.00%
Bank	$ 169,779	10.44%	$ 65,078	4.00%	$ 97,617	6.00%
Tier I Capital (to Average Assets)						
Consolidated	$ 171,521	8.93%	$ 76,857	4.00%	$ 96,071	5.00%
Bank	$ 169,779	8.84%	$ 76,786	4.00%	$ 95,983	5.00%

NOTE 17 - CAPITAL REQUIREMENTS AND RESTRICTIONS ON RETAINED EARNINGS (continued)

The Bank is required to obtain the approval of the Department of Financial Institutions for the payment of any dividend if the total amount of all dividends declared by the Bank during the calendar year, including the proposed dividend, would exceed the sum of the retained net income for the year to date combined with its retained net income for the previous two years. Indiana law defines "retained net income" to mean the net income of a specified period, calculated under the consolidated report of income instructions, less the total amount of all dividends declared for the specified period. As of December 31, 2008, approximately $2.0 million was available to be paid as dividends to the Company by the Bank.

The payment of dividends by any financial institution or its holding company is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a financial institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, the Bank exceeded its minimum capital requirements under applicable guidelines as of December 31, 2008. Notwithstanding the availability of funds for dividends, however, the FDIC may prohibit the payment of any dividends by the Bank if the FDIC determines such payment would constitute an unsafe or unsound practice.

NOTE 18 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company adopted SFAS No. 157 effective January 1, 2008, which provides a framework for measuring fair value under GAAP.

The Company also adopted SFAS No. 159, on January 1, 2008. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company did not elect the fair value option for any financial assets or liabilities, does not have any material derivative instruments, does not participate in any significant hedging activities and the Company valued securities available for sale at fair value prior to the adoption of SFAS 157 and 159, therefore there is no transition adjustment resulting from the adoption of SFAS 157 and SFAS 159.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and securities whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency mortgage-backed debt securities, private mortgage-backed debt securities, corporate debt securities, municipal bonds and residential mortgage loans held-for-sale.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes residential mortgage servicing rights and impaired loans.

NOTE 18 – FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Securities available for sale are valued primarily by a third party pricing service. The fair values of securities available for sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or pricing models utilizing significant observable inputs such as matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). There were no transfers from or into Level 1, Level 2 or Level 3 during 2008.

The table below presents the balances of assets measured at fair value on a recurring basis:

	December 31, 2008			
	Fair Value Measurements Using			
Assets	Level 1	Level 2	Level 3	Assets at Fair Value
	(in thousands)			
Securities available for sale	$ 1,025	$ 386,005	$ 0	$ 387,030
Total assets	$ 1,025	$ 386,005	$ 0	$ 387,030

Also, the Company may be required, from time to time, to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower-of-cost-or-fair-value accounting or write-downs of individual assets. The table below presents the balances of assets measured at fair value on a nonrecurring basis:

	December 31, 2008			
	Fair Value Measurements Using			
Assets	Level 1	Level 2	Level 3	Assets at Fair Value
	(in thousands)			
Impaired loans	$ 0	$ 0	$ 17,076	$ 17,076
Mortgage servicing rights	0	0	121	121
Total assets	$ 0	$ 0	$ 17,197	$ 17,197

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a gross carrying amount of $20.3 million, with a valuation allowance of $3.2 million, resulting in an additional provision for loan losses of $2.9 million for the year ended December 31, 2008. In addition, $23,000 in impairment of mortgage servicing rights, measured using Level 3 inputs within the fair value hierarchy, was reversed during 2008. The $23,000 reversal was recorded in loan, insurance and service fees.

NOTE 18 – FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table contains the estimated fair values and the related carrying values of the Company's financial instruments at December 31, 2008 and 2007. Items which are not financial instruments are not included.

	2008		2007	
	Carrying Value	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
	(in thousands)			
Financial Assets:				
Cash and cash equivalents	**$ 64,007**	**$ 64,007**	$ 67,691	$ 67,691
Securities available for sale	**387,030**	**387,030**	327,757	327,757
Real estate mortgages held for sale	**401**	**405**	537	543
Loans, net	**1,814,474**	**1,827,967**	1,507,919	1,519,024
Federal Home Loan Bank stock	**9,849**	**9,849**	4,551	4,551
Federal Reserve Bank stock	**1,738**	**1,738**	1,738	1,738
Accrued interest receivable	**8,588**	**8,588**	9,113	9,113
Financial Liabilities:				
Certificates of deposit	**(998,344)**	**(1,013,798)**	(699,713)	(703,766)
All other deposits	**(886,955)**	**(886,955)**	(779,205)	(779,205)
Securities sold under agreements to repurchase	**(137,769)**	**(137,769)**	(154,913)	(154,913)
Other short-term borrowings	**(64,840)**	**(64,840)**	(161,252)	(161,273)
Long-term borrowings	**(90,043)**	**(94,002)**	(44)	(43)
Subordinated debentures	**(30,928)**	**(30,917)**	(30,928)	(33,009)
Standby letters of credit	**(213)**	**(213)**	(145)	(145)
Accrued interest payable	**(9,812)**	**(9,812)**	(11,104)	(11,104)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2008 and 2007. The estimated fair value for cash and cash equivalents, demand and savings deposits, variable rate loans, variable rate short term borrowings, accrued interest and Federal Home Loan Bank and Federal Reserve Bank stock is considered to approximate cost. The estimated fair value for fixed rate loans, certificates of deposit and fixed rate borrowings is based on discounted cash flows using current market rates applied to the estimated life. Real estate mortgages held for sale are based upon the actual contracted price for those loans sold but not yet delivered, or the current Federal Home Loan Mortgage Corporation price for normal delivery of mortgages with similar coupons and maturities at year-end. The fair value of off-balance sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements. The estimated fair value of other financial instruments approximate cost and are not considered significant to this presentation.

NOTE 19 - COMMITMENTS, OFF-BALANCE SHEET RISKS AND CONTINGENCIES

During the normal course of business, the Company becomes a party to financial instruments with off-balance sheet risk in order to meet the financing needs of its customers. These financial instruments include commitments to make loans and open-ended revolving lines of credit. Amounts as of December 31, 2008 and 2007, were as follows:

	2008		2007	
	Fixed Rate	**Variable Rate**	Fixed Rate	Variable Rate
	(in thousands)			
Commercial loan lines of credit	**$ 77,047**	**$ 573,723**	$ 66,142	$ 430,712
Commercial letters of credit	**0**	**1,165**	0	861
Standby letters of credit	**10,179**	**15,646**	3,311	11,489
Real estate mortgage loans	**9,506**	**87**	4,191	1,119
Real estate construction mortgage loans	**619**	**1,470**	1,143	833
Home equity mortgage open-ended revolving lines	**0**	**102,923**	0	100,402
Consumer loan open-ended revolving lines	**0**	**5,371**	0	4,480
Total	**$ 97,351**	**$ 700,385**	$ 74,787	$ 549,896

The index on variable rate commercial loan commitments is principally the Company’s base rate, which is the national prime rate. Interest rate ranges on commitments and open-ended revolving lines of credit for December 31, 2008 and 2007, were as follows:

	2008		2007	
	Fixed Rate	**Variable Rate**	Fixed Rate	Variable Rate
Commercial loan	**2.80-11.00%**	**1.16-8.85%**	3.00-12.00%	3.00-11.45%
Real estate mortgage loan	**4.75-7.13%**	**5.50-7.50%**	5.75-8.25%	5.88-7.25%
Consumer loan open-ended revolving line	**N/A**	**2.09-15.00%**	N/A	6.00-15.00%

Commitments, excluding open-ended revolving lines, generally have fixed expiration dates of one year or less. Open-ended revolving lines are monitored for proper performance and compliance on a monthly basis. Since many commitments expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company follows the same credit policy (including requiring collateral, if deemed appropriate) to make such commitments as is followed for those loans that are recorded in its financial statements.

The Company’s exposure to credit losses in the event of nonperformance is represented by the contractual amount of the commitments. Management does not expect any significant losses as a result of these commitments.

NOTE 20 - PARENT COMPANY STATEMENTS

The Company operates primarily in the banking industry, which accounts for substantially all of its revenues, operating income, and assets. Presented below are parent only financial statements:

CONDENSED BALANCE SHEETS

	December 31,	
	2008	2007
	(in thousands)	
ASSETS		
Deposits with Lake City Bank	**$ 1,446**	$ 1,370
Investments in banking subsidiary	**177,802**	174,526
Investments in Lakeland Statutory Trust II	**928**	928
Other assets	**803**	512
Total assets	**$ 180,979**	$ 177,336
LIABILITIES		
Dividends payable and other liabilities	**$ 171**	$ 138
Subordinated debt	**30,928**	30,928
STOCKHOLDERS' EQUITY	**149,880**	146,270
Total liabilities and stockholders' equity	**$ 180,979**	$ 177,336

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31,		
	2008	2007	2006
		(in thousands)	
Dividends from Lake City Bank, Lakeland Statutory Trust II	**$ 7,154**	$ 7,717	$ 5,533
Equity in undistributed income of subsidiaries	**14,293**	13,506	15,178
Interest expense on subordinated debt	**(2,081)**	(2,643)	(2,573)
Miscellaneous expense	**(684)**	(590)	(624)
INCOME BEFORE INCOME TAXES	**18,682**	17,990	17,514
Income tax benefit	**1,019**	1,221	1,207
NET INCOME	**$ 19,701**	$ 19,211	$ 18,721

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2008	2007	2006
		(in thousands)	
Cash flows from operating activities:			
Net income	**$ 19,701**	$ 19,211	$ 18,721
Adjustments to net cash from operating activities:			
Equity in undistributed income of subsidiaries	**(14,293)**	(13,506)	(15,178)
Other changes	**186**	849	(286)
Net cash from operating activities	**5,594**	6,554	3,257
Cash flows from investing activities	**0**	0	0
Cash flows from financing activities	**(5,518)**	(5,713)	(4,279)
Net increase in cash and cash equivalents	**76**	841	(1,022)
Cash and cash equivalents at beginning of the year	**1,370**	529	1,551
Cash and cash equivalents at end of the year	**$ 1,446**	$ 1,370	$ 529

NOTE 21 - EARNINGS PER SHARE

Following are the factors used in the earnings per share computations:

	2008	2007	2006
Basic earnings per common share:			
Net income	**$ 19,701,000**	$ 19,211,000	$ 18,721,000
Weighted-average common shares outstanding	**12,271,927**	12,188,594	12,069,300
Basic earnings per common share	**$ 1.61**	$ 1.58	$ 1.55
Diluted earnings per common share:			
Net income	**$ 19,701,000**	$ 19,211,000	$ 18,721,000
Weighted-average common shares outstanding for basic earnings per common share	**12,271,927**	12,188,594	12,069,300
Add: Dilutive effect of assumed exercises of stock options	**187,875**	235,543	306,167
Average shares and dilutive potential common shares	**12,459,802**	12,424,137	12,375,467
Diluted earnings per common share	**$ 1.58**	$ 1.55	$ 1.51

Stock options for 106,000 and 14,000 shares of common stock were not considered in computing diluted earnings per common share for 2008 and 2007 because they were antidilutive.

NOTE 22 – SELECTED QUARTERLY DATA (UNAUDITED) (in thousands except per share data)

2008	**4th Quarter**	**3rd Quarter**	**2nd Quarter**	**1st Quarter**
Interest income	**$ 28,914**	**$ 30,966**	**$ 29,012**	**$ 29,592**
Interest expense	**12,922**	**13,694**	**13,514**	**15,086**
Net interest income	**$ 15,992**	**$ 17,272**	**$ 15,498**	**$ 14,506**
Provision for loan losses	**2,323**	**3,710**	**3,021**	**1,153**
Net interest income after provision	**$ 13,669**	**$ 13,562**	**$ 12,477**	**$ 13,353**
Noninterest income	**5,385**	**6,202**	**5,972**	**5,769**
Noninterest expense	**12,550**	**11,942**	**11,607**	**11,382**
Income tax expense	**2,071**	**2,597**	**2,040**	**2,499**
Net income	**$ 4,433**	**$ 5,225**	**$ 4,802**	**$ 5,241**
Basic earnings per common share	**$ 0.36**	**$ 0.43**	**$ 0.39**	**$ 0.43**
Diluted earnings per common share	**$ 0.35**	**$ 0.42**	**$ 0.39**	**$ 0.42**

2007	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Interest income	$ 30,365	$ 30,091	$ 29,259	$ 28,258
Interest expense	16,307	16,372	15,578	15,160
Net interest income	$ 14,058	$ 13,719	$ 13,681	$ 13,098
Provision for loan losses	1,054	1,697	906	641
Net interest income after provision	$ 13,004	$ 12,022	$ 12,775	$ 12,457
Noninterest income	5,201	5,134	5,304	4,603
Noninterest expense	11,369	10,892	10,392	10,270
Income tax expense	2,012	1,890	2,432	2,032
Net income	$ 4,824	$ 4,374	$ 5,255	$ 4,758
Basic earnings per common share	$ 0.40	$ 0.36	$ 0.43	$ 0.39
Diluted earnings per common share	$ 0.40	$ 0.35	$ 0.42	$ 0.38

NOTE 23 – SUBSEQUENT EVENTS (Unaudited)

On February 27, 2009, the Company entered into a Letter Agreement with the United States Department of the Treasury ("Treasury"), pursuant to which the Company issued (i) 56,044 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 396,538 shares of the Company's common stock, no par value (the "Common Stock"), for an aggregate purchase price of $56,044,000 in cash. This transaction was conducted in accordance with Treasury's Capital Purchase Program implemented under the Troubled Assets Relief Program ("TARP").

The Series A Preferred Stock will qualify as Tier 1 capital and will pay cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Series A Preferred Stock is non-voting except with respect to certain matters affecting the rights of the holders thereof.

The Warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to $21.20 per share of the Common Stock.

Pursuant Treasury's original terms, the Series A Preferred Stock could be redeemed by the Company after three years. Prior to the end of three years, the Series A Preferred Stock could be redeemed by the Company only with proceeds from the sale of qualifying equity securities of the Company. However, the American Recovery and Reinvestment Act of 2009 ("ARRA"), which was signed into law by President Obama on February 17, 2009, provides that the Secretary of Treasury shall permit a recipient of funds under TARP subject to consultation with the recipient's appropriate Federal banking agency, to repay such assistance without regard to whether the recipient has replaced such funds from any other source or to any waiting period. ARRA further provides that when the recipient repays such assistance, the Secretary of Treasury shall liquidate the warrants associated with the assistance at the current market price. While Treasury has not yet issued implementing regulations, it appears that ARRA will permit the Company, if it so elects and following consultation with the Federal Reserve, to redeem the Series A Preferred Stock at any time without restriction.

In addition, we may not increase the quarterly dividends we pay on the Company's common stock above $0.155 per share for three years, without the consent of Treasury, unless Treasury no longer holds shares of the Series A Preferred Stock.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Lakeland Financial Corporation
Warsaw, Indiana

We have audited the accompanying consolidated balance sheets of Lakeland Financial Corporation ("Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2008. We also have audited Lakeland Financial Corporation's (the "Company") internal control over financial reporting as of December 31, 2008, based on *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Lakeland Financial Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lakeland Financial Corporation as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008 in conformity with U.S. generally accepted accounting principles. Also in our opinion, Lakeland Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on *Internal Control—Integrated Framework* issued by COSO.

Crowe Horwath LLP

South Bend, Indiana
February 7, 2009

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9a. CONTROLS AND PROCEDURES

a) An evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a -15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2007. Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

b) MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2008.

The Company's independent registered public accounting firm has issued their report on the Company's internal control over financial reporting. That report appears under the heading, Report of Independent Registered Public Accounting Firm.

c) There have been no changes in the Company's internal controls during the previous fiscal quarter, ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

ITEM 9b. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information appearing in the definitive Proxy Statement, for the Annual Meeting of Shareholders to be held on April 14, 2009, is incorporated herein by reference in response to this item.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing in the definitive Proxy Statement, for the Annual Meeting of Shareholders to be held on April 14, 2009, is incorporated herein by reference in response to this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHARELHOLDER MATTERS

The information appearing in the definitive Proxy Statement, for the Annual Meeting of Shareholders to be held on April 14, 2009, is incorporated herein by reference in response to this item.

Equity Compensation Plan Information

The table below sets forth the following information as of December 31, 2008 for (i) all compensation plans previously approved by the Company's shareholders and (ii) all compensation plans not previously approved by the Company's shareholders:

(a) the number of securities to be issued upon the exercise of outstanding options, warrants and rights;

(b) the weighted-average exercise price of such outstanding options, warrants and rights;

(c) other than securities to be issued upon the exercise of such outstanding options, warrants and rights, the number of securities remaining available for future issuance under the plans.

EQUITY COMPENSATION PLAN INFORMATION

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders[(1)(2)]	399,756	$ 14.25	691,000
Equity compensation plans not approved by security holders	0	$ 0.00	0
Total	399,756	$ 14.25	691,000

(1) Lakeland Financial Corporation 1997 Share Incentive Plan adopted on April 14, 1998 by the Board of Directors.

(2) Lakeland Financial Corporation 2008 Equity Incentive Plan adopted on May 14, 2008 by the Board of Directors.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing in the definitive Proxy Statement, for the Annual Meeting of Shareholders to be held on April 14, 2009, is incorporated herein by reference in response to this item.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information appearing in the definitive Proxy Statement, for the Annual Meeting of Shareholders to be held on April 14, 2009, is incorporated herein by reference in response to this item.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The documents listed below are filed as a part of this report:

(a) Exhibits

Exhibit No.	Document	Incorporated by reference to
3.1	Amended and Restated Articles of Incorporation of Lakeland Financial Corporation	Exhibit 3.1 in the Company’s Form 8-K Filed with the Commission on February 27, 2009
3.2	Bylaws of Lakeland Financial Corporation	Exhibit 3(ii) to the Company’s Form 10-Q for the quarter ended June 30, 1996
4.1	Form of Common Stock Certificate	Exhibit 4.1 to the Company’s Form 10-K for the fiscal year ended December 31, 2003
10.1	Lakeland Financial Corporation 2008 Equity Incentive Plan	Exhibit 4.3 to the Company’s Form S-8 filed with the Commission on April 8, 2008
10.2	Form of Indenture for Trust Preferred Issuance	Exhibit 4.1 to the Company’s Form 10-K for the fiscal year ended December 31, 2003
10.3	Lakeland Financial Corporation 401(k) Plan	Exhibit 10.1 to the Company’s Form S-8 filed with the Commission on October 23, 2000
10.4	Amended and Restated Lakeland Financial Corporation Director’s Fee Deferral Plan	Attached hereto
10.5	Form of Change of Control Agreement entered into with Michael L. Kubacki, David M. Findlay, Charles D. Smith and Kevin L. Deardorff	Attached hereto
10.7	Employee Deferred Compensation Plan and Form of Agreement	Attached hereto
10.8	Schedule of Board Fees	Attached hereto
10.9	Form of Option Grant Agreement	Exhibit 10.10 to the Company’s Form 10-K for the fiscal year ended December 31, 2004

10.10	Executive Incentive Bonus Plan	Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended December 31, 2004
21.0	Subsidiaries	Attached hereto
23.1	Consent of Independent Registered Public Accounting Firm	Attached hereto
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-15(e)/15d-15(e) and 13(a)-15(f)/15d-15(f)	Attached hereto
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-15(e)/15d-15(e) and 13(a)-15(f)/15d-15(f)	Attached hereto
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached hereto
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached hereto

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SIGNATURES

Pursuant to the requirements of Section 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAKELAND FINANCIAL CORPORATION

Date: March 6, 2009

By /s/ Michael L. Kubacki
Michael L. Kubacki, Chairman

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Michael L. Kubacki Michael L. Kubacki	Principal Executive Officer and Director	March 6, 2009
/s/ David M. Findlay David M. Findlay	Principal Financial Officer	March 6, 2009
/s/ Teresa A.Bartman Teresa A. Bartman	Principal Accounting Officer	March 6, 2009
Robert E. Bartels, Jr.	Director	March 6, 2009
/s/ L. Craig Fulmer L. Craig Fulmer	Director	March 6, 2009
/s/ Thomas A. Hiatt Thomas A. Hiatt	Director	March 6, 2009
/s/ Charles E. Niemier Charles E. Niemier	Director	March 6, 2009
/s/ Emily E. Pichon Emily E. Pichon	Director	March 6, 2009
/s/ Richard L. Pletcher Richard L. Pletcher	Director	March 6, 2009
/s/ Steven D. Ross Steven D. Ross	Director	March 6, 2009
/s/ Donald B. Steininger Donald B. Steininger	Director	March 6, 2009
/s/ Terry L. Tucker Terry L. Tucker	Director	March 6, 2009
/s/ M. Scott Welch M. Scott Welch	Director	March 6, 2009

AMENDED AND RESTATED
LAKELAND FINANCIAL CORPORATION
DIRECTORS FEE DEFERRAL PLAN

This Amended and Restated Lakeland Financial Corporation Directors Fee Deferral Plan (the "**Plan**") is amended and restated effective as of the 9th day of December 2008, by the Board of Directors of Lakeland Financial Corporation.

WITNESSETH:

WHEREAS, the Board of Directors of Lakeland Financial Corporation ("**Lakeland**") duly adopted the Plan on the 11th day of December, 1984 and has from time to time subsequently amended and restated the Plan; and

WHEREAS, Lakeland desires to amend and restate the Plan effective as of December 9, 2008 and intends the Plan to be a material modification of the Plan such that all amounts earned and vested prior to December 31, 2004 shall be subject to the provisions of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("Section 409A").

NOW, THEREFORE, the Plan is hereby amended and restated as follows:

I. PURPOSE

The purpose of the Plan is to provide a method by which the non-employee directors of Lakeland and its subsidiaries may defer receipt of their directors' fees until their retirement from such board of directors and during the period of deferral accrue income on such deferred fees. This Plan is intended to be a non-qualified and unfunded plan and in compliance with Section 409A.

II. PARTICIPATION

Each non-employee member of the Board of Directors of Lakeland or its subsidiaries (collectively referred to herein as the "**Board**") may become a participant ("**Participant**") in the Plan as of the later of (a) his or her appointment to the Board, and (b) his or her filing a written election in the form of "**Exhibit A**," attached hereto and made a part hereof, to defer all or a portion of the director's fees coming due and payable. In the year of becoming a non-employee member of the Board, the director may file a written election in the form of "**Exhibit A**" within thirty (30) days of becoming a member of the Board to apply to director fees due and payable subsequent to the filing of the election. If a written election is not completed during this initial thirty (30) day period or in the case of subsequent written elections to defer, the written election must be filed no later than December 31st of the calendar year preceding the calendar year to which the election is to apply. A director's election to defer all or a portion of his or her director's fees remain in effect and continue from year to year, unless and until the director modifies or revokes his or her election by filing with the Board a new written election in the form of "**Exhibit A**". Any modification or revocation of a prior election shall only be effective for director fees coming due and payable in a subsequent calendar year and each director may modify or revoke his or her election only once each calendar year.

III. INDIVIDUAL ACCOUNTS

3.1 Separate Accounts. Separate accounts shall be established for each Participant. The Participant's deferred fees shall be credited to the Participant's deferred fee account ("**Account**") as of the date the fees would otherwise have been payable to the Participant (the "**Deferral Date**").

3.2 Earnings Credit. Each Participant's Account will be credited with the hypothetical number of Lakeland common stock units ("**Units**"), calculated to the nearest thousandth of a Unit, determined by dividing the amount of the fees deferred on the Deferral Date by (a) or (b) below, as applicable:

(a) if an actual purchase is made under a trust established by Lakeland pursuant to Treasury Department Revenue Procedure 92-64 (a "**Rabbi Trust**"), the actual purchase price for the shares purchased; and

(b) if an actual purchase is not made pursuant to subsection (a) above by the end of the month following the applicable Deferral Date, the average of the closing market price of Lakeland's common stock as reported on Nasdaq for the twenty (20) trading days immediately preceding and including the Deferral Date.

The Participant's Account will also be credited with the number of Units determined by multiplying the number of Units in the Participant's Account by any cash dividends declared by Lakeland on its common stock and dividing the product by the closing market price of Lakeland's common stock as reported on Nasdaq on the related dividend record date, and also by multiplying the number of Units credited to the Participant's Account by any stock dividends declared by Lakeland on its common stock.

3.3 Valuations. Participant Accounts shall be valued and participant statements shall be distributed quarterly.

3.4 Recapitalization. If, as a result of a recapitalization of Lakeland (including a stock split), Lakeland's outstanding shares shall be changed into a greater or smaller number, then number of Units credited to a Participant's Account shall be appropriately adjusted on the same basis.

IV. VESTING

Participant Accounts, which include deferrals and the earnings credited thereon, shall be fully vested at all times.

V. BENEFITS

A Participant’s Account under this Plan shall become payable as follows:

5.1 Form of Payment. A Participant’s Account shall be paid in the form of shares of Lakeland common stock.

5.2 Payment Upon Death. A Participant’s Account as of the date of death shall be paid in the form of actual shares of Lakeland Financial Corporation common stock in one (1) lump sum to the beneficiary designated by the deceased Participant prior to his or her death, and if none to his or her estate, on the first January 1 or July 1 following the date of the death of the deceased Participant.

5.3 Retirement or Removal. Upon a Participant’s retirement or removal from the Board, which qualifies as a “separation from service” under Section 409A of the Code, the Participant’s Account shall be paid according to the payment election made by the Participant upon the Participant’s commencement of participation in the Plan, as follows:

(a) Payment in the form of actual shares in ten (10) equal annual installments of ten percent (10%) of the Participant’s Account as of the January 1 following the date such director ceases to serve on the Board. Upon the death of a former director who is receiving payments hereunder, the balance shall be paid pursuant to Section 5.2. Each such payment shall be increased by the amount of earnings accrued (as determined under Section 3.2) since the last January 1 on which any such payment was made; or

(b) Payment in the form of actual shares in one lump sum within thirty (30) days following the date of retirement or removal.

If the Participant does not have a valid payment election on file at the time of his or her resignation or removal, his or her Account shall be distributed pursuant to Section 5.3(b).

5.4 Revised Payment Election. Each Participant may amend his or her previous payment election with respect to the payout alternatives set forth in Section 5.3 by submitting a written election in the form of Exhibit 1 to the Board. In order to be effective, the amended payment election must satisfy the following conditions:

(a) The newly amended payment election may not take effect until at least twelve (12) months after the date on which it is completed;

(b) The commencement of payments under the newly amended payment election must be deferred for a period of not less than five (5) years from the date the amounts would have otherwise been paid; and

(c) The amended payment election may not be made less than twelve (12) months prior to the date the Participant's payment is scheduled to be paid or commence.

5.5 Solicitation of New Payment Election. In a manner that is consistent with Section 409A, the Board may solicit new Deferral Election and Payout Election Forms from Participants in order for the Participants to change the method of distributions of all amounts which are subject to Section 409A under the Plan, provided such elections are solicited and properly made prior to December 31, 2008. In the event the Board elects to solicit new forms under this Section 5.5, the failure by the Participant to submit a complete and timely Payout Election Form will result in the application the provisions of Section 5.3.

5.6 Assignability. No right to receive payment of deferred fees or earnings shall be transferable or assignable by a Participant except by will or laws of descent and distribution.

VI. SECURITY OR COLLATERAL

All sums deferred pursuant to this Plan and any accrued earnings thereon shall be unsecured obligations of Lakeland Financial Corporation and shall have no priority over other unsecured creditors of Lakeland Financial Corporation. No Participant shall have any rights to, or interest in, any assets held in any trust established pursuant to the Plan.

VII. PLAN YEAR

This Plan shall operate on a calendar year basis.

VIII. MODIFICATION AND TERMINATION

The Board of Lakeland shall retain the right to modify or terminate this Plan at any time; provided such modification or termination shall not affect any current or former director's rights hereunder as to fees deferred prior to the effective date of such modification or termination. Upon the termination of the Plan, each Participant's Plan benefits shall remain in the Plan until the Participant becomes eligible for the benefits provided under the Plan in accordance with the terms of the Plan. The termination of the Plan shall not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination. Notwithstanding the foregoing provisions of this Article VIII, if the Board determines that it is permissible to distribute Participants' Plan benefits by reason of Plan termination without violating the prohibition on acceleration of payments under Code Section 409A, the Board, in its discretion, may elect to distribute Participants' vested Plan benefits following termination of the Plan, in which case the date of the Plan termination will be treated as the date of the Participant's resignation or removal from the Board. Upon the termination of

the Plan, each Participant shall receive the balance of his Plan benefit in the form of a lump sum payment.

LAKELAND FINANCIAL CORPORATION

By /s/ Michael L. Kubacki
Michael L. Kubacki
President and CEO

FIRST AMENDMENT TO THE

CHANGE IN CONTROL AGREEMENT BETWEEN
LAKELAND FINANCIAL CORPORATION
AND [NAME]

WHEREAS, Lakeland Financial Corporation (the "**Company**") and **[NAME]** ("**Executive**") previously entered into that certain Change in Control Agreement dated **[DATE]** (the **"Agreement"**);

WHEREAS, the Company and Executive desire to amend certain provisions of the Agreement in order to bring such provisions into compliance with the applicable provisions of Section 409A of the Internal Revenue Code of 1986, as amended (and guidance issued thereunder) (collectively referred to herein as "**Section 409A**") and certain other provisions;

WHEREAS, the parties desire to amend the Agreement on the terms hereinafter set forth.

NOW, THEREFORE, for good and valuable consideration, including the benefit to the parties of complying with the requirements of Section 409A, the sufficiency of which is agreed and acknowledged by the parties hereto, effective as of the 9th day of December, 2008, the Agreement be and is hereby amended in the following particulars:

1. Section 2-C. – Definition of Change in Control is modified to read as follows:

C. "Change in Control" shall mean:

"(i) The date of the consummation of the acquisition by any "person" (as such term is defined in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended ("1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of fifty percent (50%) or more of the combined voting power of the then outstanding voting securities of Company; or

(ii) The date that individuals who, as of date hereof, are members of the board of directors of the Company (the "Company Board") cease for any reason to constitute a majority of the Company Board, unless the election, or nomination for election by the Company stockholders, of a new Company director was approved by a vote of a majority of the Company Board, and such new director shall, for purposes of this Plan, be considered as a member of the Company Board; or

“(iii) The date of the consummation by the Company of (i) a merger or consolidation of the Company, if the Company stockholders immediately before such merger or consolidation, do not, as a result of such merger or consolidation, own directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation, in substantially the same proportion as their ownership of the combined voting power of the voting securities of the Company outstanding immediately before such merger or consolidation or (ii) a complete liquidation or dissolution or an agreement for the sale or other disposition of all or substantially all of the assets of the Company.

“Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because fifty percent (50%) or more of the combined voting power of the then outstanding securities of the Company is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of the entity or (ii) any corporation which, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company immediately prior to such acquisition.

“In the event that any benefit under the Plan constitutes Deferred Compensation (as defined in Section 409A) and the settlement of or distribution of benefits under this Plan is to be triggered by a Change in Control, then such settlement or distribution shall be subject to the event constituting the Change in Control also constituting a ‘change in control event’ permitted under Section 409A.”

2. Section 2-D. – Definition of “Change in Control Severance Amount” is modified to read as follows:

D. “Change in Control Severance Amount” shall mean the amount equal to two (2) times the sum of (i) the greater of the Executive’s then current annual base salary or the Executive’s annual base salary as of the date one (1) day prior to his or her Termination Date, (ii) the designated percentage of the amount determined under (i) above payable as annual bonus compensation for the year in which the Change in Control occurs, (iii) the aggregate dollar amount accrued under the Long Term Incentive Plan payable in the two plan years subsequent to the Change in Control, and

(iv) any other incentive compensation accrued or payable in the year of the Change in Control.

3. Section 3 is amended by adding the following at the end of Section 3:

"The Company shall pay all premiums related to coverage provided by this Section 3 at the same time as premiums are paid with respect to active employees under the Company's group health plan."

4. Section 4 is amended to read as follows:

"Golden Parachute Payment Adjustment. It is the intention of the parties that the Change in Control Severance Amount under this Agreement and the value of all other amounts and benefits provided pursuant to a Change in Control, either under this Agreement or any other plan or agreement to which the Executive is a party, shall not constitute "excess parachute payments" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and any regulations thereunder. However, if the independent accountants acting as auditors for the Company on the date of a Change in Control (or another accounting firm designated by the parties) determine, in consultation with legal counsel acceptable to the parties, that any amount payable to the Executive by the Company under this Agreement, or any other plan or agreement under which the Executive participates or is a party, would constitute an excess parachute payment within the meaning of Section 280G of the Code and be subject to the "excise tax" imposed by Section 4999 of the Code, then the Company shall pay to the Executive the amount of such excise tax and all federal and state income or other taxes with respect to the payment of the amount of such excise tax, including all such taxes with respect to any such additional amount. Such payment shall be paid to Executive no later than the end of the Executive's taxable year following the taxable year in which Executive remits the excise tax. If at a later date, the Internal Revenue Service assesses a deficiency against the Executive for the excise tax which is greater than that which was determined at the time such amounts were paid, the Company shall pay to the Executive the amount of such unreimbursed excise tax plus any interest, penalties and professional fees or expenses, incurred by the Executive as a result of such assessment, including all such taxes with respect to any such additional amount, all paid to Executive no later than the end of the Executive's taxable year following the taxable year in which Executive remits the deficient excise tax. The highest marginal tax rate applicable to individuals at the time of payment of such amounts will be used for purposes of determining the federal and state income and other taxes with respect thereto. The Company shall withhold from any amounts paid under this Agreement the amount of any excise tax or other federal, state or local taxes then required to be withheld. Computations of the amount of any supplemental compensation paid under this subparagraph shall be made by the independent public accountants then regularly retained by the Company, in consultation with legal counsel acceptable to the parties. The Company shall pay all accountant and legal counsel fees and expenses."

5. New Section 16 is added by the addition of the following:

A. It is intended that the Agreement shall comply with the provisions of Section 409A and the Treasury regulations relating thereto so as not to subject Employee to the payment of additional taxes and interest under Section 409A. In furtherance of this intent, this Agreement shall be interpreted, operated and administered in a manner consistent with these intentions, and to the extent that any regulations or other guidance issued under Section 409A would result in Executive being subject to payment of additional income taxes or interest under Section 409A, the parties agree to amend the Agreement to maintain to the maximum extent practicable the original intent of the Agreement while avoiding the application of such taxes or interest under Section 409A.

B. Notwithstanding any provision of the Agreement to the contrary if, as of the effective date of Executive's separation from service, he or she is a "Specified Employee," then, only to the extent required pursuant to Section 409A(a)(2)(B)(i), payments due under this Agreement which are deemed to be deferred compensation shall be subject to a six (6) month delay following Executive's separation from service. For purposes of Code Section 409A, all installment payments of deferred compensation made hereunder, or pursuant to another plan or arrangement, shall be deemed to be separate payments and, accordingly, the aforementioned deferral shall only apply to separate payments which would occur during the six (6) month deferral period and all other payments shall be unaffected. All delayed payments shall be accumulated and paid in a lump-sum catch-up payment as of the first day of the seventh (7th) month following separation from service (or, if earlier, the date of Executive's death) with all such delayed payments being credited with interest (compounded monthly) for this period of delay equal to the prime rate in effect on the first day of such six-month period. Any portion of the benefits hereunder that were not otherwise due to be paid during the six-month period following the termination shall be paid to Executive in accordance with the payment schedule established herein.

C. The term "Specified Employee" shall mean any employee who is a "key employee" (as defined in Code Section 416(i) without regard to paragraph (5) thereof, as determined by the Company based upon the 12-month period ending on each December 31st (such 12-month period is referred to below as the "identification period"). If Executive is determined to be a Specified Employee during the identification period, he or she shall be treated as a Specified Employee for purposes of this Agreement during the 12-month period that begins on the April 1st following the close of such identification period. For purposes of determining whether Executive is a Specified Employee under Code Section 416(i), compensation shall mean Employee's W-2 compensation as reported by the Company or Lake City Bank for a particular calendar year."

All other provisions of the Agreement remain as written.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date and year first above set forth.

LAKELAND FINANCIAL CORPORATION	**EXECUTIVE**
By: /s/ Michael L. Kubacki Michael L. Kubacki Chairman and Chief Executive Officer	

Lake City Bank

Amended and Restated
Deferred Compensation Plan

Effective December 9, 2008

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LAKE CITY BANK
AMENDED AND RESTATED
DEFERRED COMPENSATION PLAN
Effective December 9, 2008

Purpose

The purpose of this Plan is to provide specified benefits to a select group of management or highly compensated Employees who contribute materially to the continued growth, development and future business success of Lake City Bank, an Indiana state bank with its main office in Warsaw, Indiana, and its subsidiaries, if any, that sponsor this Plan. This Plan shall be unfunded for tax purposes and for purposes of Title I of ERISA. The Plan is intended to comply with all applicable law, include Code Section 409A and related Treasured guidance and Regulations, and shall be operated and interpreted in accordance with this intention.

This Plan was originally adopted effective January 1, 2004 and is hereby amended and restated in its entirety December 9, 2008. This Plan is intended to comply with Section 409A in its entirety and has at all times since January 1, 2005 been operated in good faith compliance with Section 409A. This Plan shall apply only with respect to amounts deferred or vested on or after January 1, 2005.

ARTICLE 1
Definitions

For the purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms shall have the following indicated meanings:

1.1 “Account Balance” shall mean, with respect to a Participant, a credit on the records of the Employer equal to the Deferral Account balance. The Account Balance, and each other specified account balance, shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.

1.2 “Annual Deferral Amount” shall mean that portion, expressed as a stated dollar amount or a percentage as may be permitted on the applicable Election Form as approved and provided by the Committee, of a Participant's Base Salary, Bonus or LTIP Amount that a Participant defers in accordance with ARTICLE 3 for any one Plan Year. In the event of a Participant's Retirement, death or a Cessation of Employment prior to the end of a Plan Year, such year's Annual Deferral Amount shall be the actual amount withheld prior to such event.

1.3 “Annual Installment Method” shall be an annual installment payment over the number of years selected by the Participant in accordance with this Plan, calculated as follows: (i) for the first annual installment, the Account Balance of the Participant shall be calculated as of the close of business on or around the last business day of the Plan Year in which the Participant Retires or is deemed to have Retired in accordance with Section 9.2, as determined by the Committee in its sole discretion, and (ii) for remaining annual installments, the Account Balance of the Participant shall be calculated on every applicable anniversary of the last business day of the Plan Year in which the Participant Retires or is deemed to have Retired in accordance with Section 9.2. Each annual installment shall be calculated by multiplying this balance by a fraction, the numerator of which is one and the denominator of which is the remaining number of annual payments due to the Participant.

1.4 “Bank” shall mean Lake City Bank, an Indiana state bank, and any successor to all or substantially all of the Bank’s assets or business.

1.5 “Base Salary” shall mean the annual cash compensation relating to services performed for the Employer during any calendar year, excluding distributions from nonqualified deferred compensation plans, Bonuses, commissions, overtime, fringe benefits, relocation expenses, incentive payments, stock options, restricted stock, stock appreciation rights, and other equity or non-cash incentive based awards, non-monetary awards, director fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee’s gross income) and any extraordinary items of compensation. Base Salary shall be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to all qualified or non-qualified plans of the Employer and shall be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h), or 403(b) pursuant to plans established by the Employer; *provided*, *however*, that all such amounts will be included in Base Salary only to the extent that had there been no such plan, the amount would have been payable in cash to the Employee.

1.6 “Beneficiary” shall mean one or more persons, trusts, estates or other entities, designated in accordance with ARTICLE 11, that are entitled to receive benefits under this Plan upon the death of a Participant.

1.7 “Beneficiary Designation Form” shall mean the form established from time to time by the Committee that a Participant completes signs and returns to the Committee to designate one or more Beneficiaries.

1.8 “Benefit Distribution Date” shall have the meaning set forth in 6.1.

1.9 “Board” shall mean the board of directors of the Bank.

1.10 “Bonus” shall mean compensation related to services performed for the Employer during a calendar year, as approved by the Committee in its sole discretion, under any annual bonus or cash incentive plans, excluding any earnings that result from or are related to the grant, award or exercise of stock options, restricted stock, stock appreciation rights, other equity based awards and all other non-cash incentive based awards.

1.11 "Cessation of Employment" shall mean the severing of employment with the Employer, voluntarily or involuntarily, for any reason other than Retirement, Disability, death or an authorized leave of absence; provided that such cessation of employment qualifies as a separation from service under Section 409A.

1.12 "Change in Control" shall mean:

(a) The date of the consummation of the acquisition by any "person" (as such term is defined in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended ("1934 Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of fifty percent (50%) or more of the combined voting power of the then outstanding voting securities of Lakeland Financial Corporation (the "Company"); or

(b) The date that individuals who, as of date hereof, are members of the board of directors of the Company (the "Company Board") cease for any reason to constitute a majority of the Company Board, unless the election, or nomination for election by the Company stockholders, of a new Company director was approved by a vote of a majority of the Company Board, and such new director shall, for purposes of this Plan, be considered as a member of the Company Board; or

(c) The date of the consummation by the Company of (i) a merger or consolidation of the Company, if the Company stockholders immediately before such merger or consolidation, do not, as a result of such merger or consolidation, own directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the entity resulting from such merger or consolidation, in substantially the same proportion as their ownership of the combined voting power of the voting securities of the Company outstanding immediately before such merger or consolidation or (ii) a complete liquidation or dissolution or an agreement for the sale or other disposition of all or substantially all of the assets of the Company.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because fifty percent (50%) or more of the combined voting power of the then outstanding securities of the Company is acquired by (i) a trustee or other fiduciary holding securities under one or more employee benefit plans maintained for employees of the entity or (ii) any corporation which, immediately prior to such acquisition, is owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company immediately prior to such acquisition.

In the event that any benefit under the Plan constitutes Deferred Compensation (as defined in Section 409A) and the settlement of or distribution of benefits under this Plan is to be triggered by a Change in Control, then such settlement or distribution shall be subject to the event constituting the Change in Control also constituting a "change in control event' permitted under Section 409A.

1.13 “Claimant” shall have the meaning set forth in Section 16.1.

1.14 “Code” shall mean the Internal Revenue Code of 1986, as it may be amended from time to time, and the regulations promulgated thereunder from time to time.

1.15 “Committee” shall mean the committee described in ARTICLE 13.

1.16 “Deduction Limitation” shall mean the limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan, as set forth in ARTICLE 4.

1.17 “Deferral Account” shall mean (i) the sum of all of a Participant's Annual Deferral Amounts, plus (ii) amounts credited or debited to the Participant’s Deferral Account in accordance with this Plan, less (iii) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.

1.18 “Director” shall mean any member of the Board.

1.20 “Disability Benefit” shall mean the benefit set forth in ARTICLE 9.

1.21 “Effective Date” means December 9, 2008; provided, however, that if any change pursuant to the amendment and restatement of this Plan constitute a change in the form or timing of distributions under Section 409A, such changes shall be effective as of January 1, 2009.

1.22 “Election Form” shall mean the form established from time to time by the Committee that a Participant completes, signs and returns to the Committee to make an election under the Plan for deferrals and to designate the time and form of payment.

1.23 “Employee” shall mean a person who is an employee of an Employer, as determined by the Committee.

1.24 “Employer” shall mean the Bank and/or any of its subsidiaries or parent company (now in existence or hereafter formed or acquired).

1.25 “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as it may be amended from time to time, and the regulations promulgated thereunder from time to time.

1.26 “In-Service Distribution” shall mean the distribution set forth in Section 5.1.

1.27 “LTIP Amounts” shall mean any portion of the compensation attributable to a Plan Year that is earned by a Participant under the Lakeland Financial Corporation Long Term Cash Incentive Plan.

1.28 “Participant” shall mean any Employee (i) who is selected to participate in the Plan, (ii) who elects to participate in the Plan, (iii) who signs a Plan Agreement, an Election Form and a Beneficiary Designation Form, (iv) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee, (v) who commences participation in the Plan, and (vi) whose Plan Agreement has not terminated. A spouse or former spouse of a Participant shall not be treated as a Participant in the Plan or have an account balance under the Plan, even if he or she has an interest in the Participant's benefits under the Plan as a result of applicable law or property settlements resulting from legal separation or divorce. Exclusively for purposes of this Plan, a person shall remain an Employee without interruption or Cessation of Service if the person is transferred to or from the Bank and any of its subsidiaries.

1.29 “Plan” shall mean the Lake City Bank Deferred Compensation Plan, which shall be evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.

1.30 “Plan Agreement” shall mean a written agreement in the form prescribed by or acceptable to the Committee that evidences a Participant’s agreement to the terms of the Plan and which may establish additional terms or conditions of Plan participation for a Participant. A Plan Agreement may, in the Committee’s sole discretion, provide for differing distribution elections for separate Plan Years. Unless otherwise determined by the Committee, the most recent Plan Agreement accepted with respect to a Participant shall supercede any prior Plan Agreements for such Participant.

1.31 “Plan Year” shall mean a period beginning on January 1 of each calendar year and continuing through December 31 of such calendar year.

1.32 “Retirement,” “Retire(s)” or “Retired” shall mean Cessation of Employment from all Employers for any reason other than a leave absence, death or Disability on or after the earlier of the attainment of age fifty-five (55) with ten (10) Years of Service.

1.33 “Retirement Benefit” shall mean the benefit set forth in ARTICLE 7.

1.34 “Section 409A” shall mean Code Section 409A, and any U.S. Treasury Department regulations and guidance promulgated thereunder, including such regulations and guidance promulgated after the effective date of the Plan as deemed appropriate by the Committee.

1.35 “Specified Employee” shall mean any Participant who is a “key employee” (as defined in Code Section 416(i) without regard to paragraph (5) thereof), as determined by the Committee based upon the 12-month period ending on each December 31st (such 12-month period is referred to below as the “identification period”). All Participants who are determined to be key employees under Code Section 416(i) (without regard to paragraph (5) thereof) during the identification period shall be treated as Specified Employees for purposes of the Plan during the 12-month period that begins on April 1st following the close of such identification period. For purposes of determining whether an individual is a key employee under Code Section 416(i), “Compensation” shall mean such individual’s W-2 compensation as reported by the Employer for a particular calendar year.

1.36 “Survivor Benefit” shall mean the benefit set forth in ARTICLE 10.

1.37 “Termination Benefit” shall mean the benefit set forth in ARTICLE 8.

1.38 “Trust” shall mean one or more trusts established shall mean one or more trusts established by the Bank in accordance with ARTICLE 17.

1.39 “Unforeseeable Emergency” shall mean an unanticipated emergency that is caused by an event beyond the control of the Participant that would result in a severe financial hardship to the Participant resulting from (i) a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, (ii) a loss of the Participant’s property due to casualty, or (iii) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Committee.

1.40 “Years of Service” shall mean the total number of full years in which a Participant has been employed by one or more Employers. For purposes of this definition, a year of employment shall be a 365 day period (or 366 day period in the case of a leap year) that, for the first year of employment, commences on the Employee's date of hiring and that, for any subsequent year, commences on the anniversary of that hiring date. The Committee in its discretion may adjust the hire date of a Participant solely for purposes of this Plan to reflect prior Years of Service in the event a Participant is re-hired by the Employer. A partial year of employment shall not be treated as a Year of Service.

ARTICLE 2
Selection, Enrollment, Eligibility

2.1 **Selection by Committee**. Participation in the Plan shall be limited to a select group of management and highly compensated Employees of the Employer, as determined by the Committee in its sole discretion. From that group, the Committee shall select, in its sole discretion, Employees who may actually participate in the Plan.

2.2 **Enrollment and Eligibility Requirements; Commencement of Participation**.

(a) As a condition of participation, each selected Employee who is eligible to participate in the Plan effective as of the first day of a Plan Year shall complete, execute and return to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form prior to the first day of such Plan Year, or such other earlier deadline as may be established by the Committee in its sole discretion. In addition, the Committee shall establish from time to time such other enrollment requirements as it determines in its sole discretion are necessary.

(b) A selected Employee who first becomes eligible to participate in this Plan after the first day of a Plan Year and who is not otherwise prohibited from making an election under this subsection (b) by operation of the plan aggregation requirements of Section 409A, must complete, execute and return to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form within thirty (30) days after he or she first becomes eligible to participate in the Plan, or within such other earlier deadline as may be established by the Committee, in its sole discretion, in order to participate for that Plan Year. In such event, such person's participation in this Plan shall not commence earlier than the date determined by the Committee pursuant to Section 2.2(c) and such person shall not be permitted to defer under this Plan any portion of his or her Base Salary, Bonus or LTIP Amounts that are paid with respect to services performed prior to his or her participation commencement date, except to the extent permissible under Section 409A.

(c) Each selected Employee who is eligible to participate in the Plan shall commence participation in the Plan on the date that the Committee determines, in its sole discretion, that the Employee has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period. Notwithstanding the foregoing, the Committee shall process such Participant's deferral election as soon as administratively practicable after such deferral election is submitted to and accepted by the Committee.

(d) Notwithstanding the foregoing provisions of this Section 2.2, if the Participant was eligible to participate in any other account balance plans sponsored by the Plan (as referenced in Section 409A) prior to becoming eligible to participate in this Plan, the initial election to defer Base Salary, Bonuses and LTIP Amounts under this Plan shall not be effective until the Plan Year following the Plan Year in which the Participant became eligible to participate in this Plan.

(e) If an Employee fails to meet all requirements contained in this Section 2.2 within the period required, that Employee shall not be eligible to participate in the Plan during such Plan Year.

2.3 **Termination of Participation and/or Deferrals.** If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in such group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee shall have the right, in its sole discretion and to the extent permitted by Section 409A, to (i) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Committee makes such determination, (ii) prevent the Participant from making future deferral elections and/or (iii) take further action that the Committee deems appropriate or necessary. Notwithstanding the foregoing, in the event of a termination of the Plan in accordance with Section 13.1, the termination of the affected Participants' eligibility for participation in the Plan shall not be governed by this Section 2.3, but rather shall be governed by ARTICLE 13. In the event that a Participant is no longer eligible to defer compensation under this Plan, the Participant's Account Balance shall continue to be governed by the terms of this Plan until such time as the Participant's Account Balance is paid in accordance with the terms of this Plan.

ARTICLE 3
Deferral Commitments/Vesting/Crediting/Taxes

3.1 **Minimum Annual Deferral Amount**. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, a portion of Base Salary, Bonus and/or LTIP Amounts in a minimum amount of one thousand dollars ($1,000). If a Participant elects less than the stated minimum amount or except as provided in Section 3.3 if a Participant fails to make an election, the amount deferred shall be zero (“0.00”).

3.2 **Maximum Deferral.**

(a) **Maximum Annual Deferral Amount**. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, a portion of Base Salary, Bonus and/or LTIP Amounts up to the following maximum percentages for each deferral elected:

Deferral	Minimum Amount
Base Salary	50%
Bonus	80%
LTIP	80%

(b) **Short Plan Year**. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the maximum Annual Deferral Amount (i) with respect to Base Salary shall be limited to the amount of compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance, and (ii) with respect to Bonus, shall be limited to those amounts deemed eligible for deferral, in the sole discretion of the Committee.

3.3 **Timing of Deferral Elections; Effect of Election Form**.

(a) **First Plan Year**. In connection with a Participant's commencement of participation in the Plan, the Participant shall complete an Election Form, along with such other elections as the Committee deems necessary or desirable under the Plan. The Election Form must be completed prior to the first day of the Plan Year or within thirty (30) days of the Employee first becoming eligible to participate in the Plan if not at the beginning of a Plan Year, or within such other earlier deadline as may be established by the Committee, in its sole discretion, in order to participate for that Plan Year. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2 above), and accepted by the Committee. Once the Election Form is submitted it is irrevocable and shall remain in effect for the entire Plan Year and all subsequent Plan Years, unless the Participant submits a revised Election Form prior to the end of a Plan Year to be effective as of the first day of the subsequent Plan Year, within the time frame set out by the Committee for completing revised Election Forms as described in subsection (b).

(b) **Subsequent Plan Years**. For each succeeding Plan Year, the Election Form completed and filed by the Participant shall remain in effect, unless a Participant completes a revised Election Form prior to the end of one Plan Year to be effective as of the first day of the next following Plan Year. The Committee, in its sole discretion, shall set forth the timeframe for accepting revised Election Forms, and such other elections as the Committee deems necessary or desirable under the Plan.

(c) **Transition Rules**. In a manner consistent with Section 409A, during 2007 and 2008 the Committee may solicit new distribution election forms from Participants in order for the Participants to change the method or timing of distribution of all amounts subject to Section 409A, provided such elections are solicited and properly made prior to December 31, 2007 or December 31, 2008, as applicable. In the event the Committee elects to solicit new forms under this Section, the failure by a Participant to submit a complete and timely revised form will result in the application of the Participant's most recently submitted and accepted form.

3.4 **Withholding and Crediting of Annual Deferral Amounts**. For each Plan Year, the Base Salary portion of the Annual Deferral Amount shall be withheld from each regularly scheduled Base Salary payroll in equal amounts, as adjusted from time to time for increases and decreases in Base Salary. The portions of Bonus and/or LTIP Amount of the Annual Deferral Amount shall be withheld at the time the Bonus or LTIP Amount are or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself. Annual Deferral Amounts shall be credited to a Participant's Deferral Account at the time such amounts would otherwise have been paid to the Participant.

3.5 **Vesting**. A Participant shall at all times be 100% vested in that portion of his or her Deferral Account representing the Participant's Annual Deferral Amounts.

3.6 **Crediting/Debiting of Account Balances.** In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account Balance in accordance with the following rules:

(a) **Measurement Funds**. Subject to the restrictions found in Section 3.6(b) below, the Participant may elect one or more of the measurement funds selected by the Committee, in its sole discretion, which are based on certain mutual funds (the "Measurement Funds"), for the purpose of crediting or debiting additional amounts to his or her Account Balance. As necessary, the Committee may, in its sole discretion, discontinue, substitute or add a Measurement Fund. Each such action will take effect as of the first day of the first calendar quarter that begins at least thirty (30) days after the day on which the Committee gives Participants advance written notice of such change.

(b) **Election of Measurement Funds**. Subject to the restrictions found in this Section 3.6(b), a Participant, in connection with his or her initial deferral election in accordance with Section 3.3(a) above, shall elect, on the Election Form, one or more Measurement Fund(s) (as described in Section 3.6(a) above) to be used to determine the amounts to be credited or debited to his or her Account Balance. If a Participant does not elect any of the Measurement Funds as described in the previous sentence, the Participant's Account Balance shall automatically be allocated into the lowest-risk Measurement Fund, as determined by the Committee, in its sole discretion. Subject to the restrictions found in this Section 3.6(b) below, the Participant may (but is not required to) elect, by submitting an Election Form to the Committee that is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the amounts to be credited or debited to his or her Account Balance, or to change the portion of his or her Account Balance allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it shall apply as of the first business day deemed reasonably practicable by the Committee, in its sole discretion, and shall continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence.

(c) **Proportionate Allocation**. In making any election described in Section 3.6(b) above, the Participant shall specify on the Election Form, in increments of one percent (1%), the percentage of his or her Account Balance to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Account Balance).

(d) **Crediting or Debiting Method**. The performance of each Measurement Fund (either positive or negative) will be determined by the Committee, in its sole discretion on a daily basis based on the manner in which such Participant's Account Balance has been hypothetically allocated among the Measurement Funds by the Participant.

(e) **No Actual Investment**. Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any such Measurement Fund, the allocation of his or her Account Balance thereto, the calculation of additional amounts and the crediting or debiting of such amounts to a Participant's Account Balance shall not be considered or construed in any manner as an actual investment of his or her Account Balance in any such Measurement Fund. In the event that the Bank or the Trustee (as that term is defined in the Trust), in its own discretion, decides to invest funds in any or all of the investments on which the Measurement Funds are based, no Participant shall have any rights in or to such investments themselves. Without limiting the foregoing, a Participant's Account Balance shall at all times be a bookkeeping entry only and shall not represent any investment made on his or her behalf by the Bank or the Trust; the Participant shall at all times remain an unsecured creditor of the Bank.

3.7 **FICA and Other Taxes**.

(a) **Annual Deferral Amounts**. For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) shall withhold from that portion of the Participant's Base Salary, Bonus and/or LTIP Amounts that are not being deferred, in a manner determined by the Employer(s), the Participant's share of FICA and other employment taxes on such Annual Deferral Amount.

(b) **Distributions**. The Participant's Employer(s), or the trustee of the Trust, shall withhold from any payments made to a Participant under this Plan all federal, state and local income, employment and other taxes required to be withheld by the Employer(s), or the trustee of the Trust, in connection with such payments, in amounts and in a manner to be determined in the sole discretion of the Employer(s) and the trustee of the Trust.

ARTICLE 4
Deduction Limitation

4.1 **Deduction Limitation on Benefit Payments.** If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any payments to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Employer to ensure the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, the Employer may defer all or any portion of a distribution under this Plan, provided that all scheduled payments that are permitted to be delayed pursuant to this ARTICLE 4 are delayed. Any amounts deferred pursuant to this limitation shall continue to be credited/debited with additional amounts in accordance with Section 3.5, even if such amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participants' death) at the earliest of the following events: (i) the earliest possible date, as determined by the Employer in good faith, on which the deductibility of the payments hereunder to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Code Section 162(m); (ii) the effective date of a Change in Control; or (iii) the effective date of the Participant's Cessation of Employment, Retirement, Disability or death provided that, subject to Section 6.3(c), payment is made no later than the 15th day of the third month following such event. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation shall not apply to any distributions made after a Change in Control.

ARTICLE 5
In-Service Distribution; Unforeseeable Financial Emergencies;
Withdrawal Election

5.1 **In-Service Distribution**. In connection with each election to defer an Annual Deferral Amount, a Participant may irrevocably elect to receive an In-Service Distribution from the Plan with respect to all or a portion of the Annual Deferral Amount. The In-Service Distribution shall be a lump sum payment in an amount that is equal to the portion of the Annual Deferral Amount that the Participant elected to have distributed as an In-Service Distribution, plus amounts credited or debited in the manner provided in Section 3.6(d) above on that amount, calculated as of the close of business on or around the date on which the In-Service Distribution becomes payable, as determined by the Committee in its sole discretion. Subject to the other terms and conditions of this Plan, each In-Service Distribution elected shall be paid out during a sixty (60) day period commencing immediately after the first day of any Plan Year designated by the Participant. The Plan Year designated by the Participant must be at least three Plan Years after the end of the Plan Year in which the Annual Deferral Amount is actually deferred. By way of example, if an In-Service Distribution is elected for Annual Deferral Amounts that are deferred in the Plan Year commencing January 1, 2007, the earliest possible In-Service Distribution would become payable during a sixty (60) day period commencing January 1, 2011. Once a Participant elects to receive an In-Service Distribution from the Plan for a given Plan Year such In-Service Distribution election shall remain in effect for all subsequent Plan Years until a revised Election Form is received by the Committee. Provided, however, if the Participant has elected to receive his or her In-Service Distribution on a date more than three Plan Years after the end of the Plan Year in which the Annual Deferral Amount is actually deferred, such Participant shall be deemed to have elected to receive an In-Service Distribution of all subsequent future deferral amounts on the first day of the Plan Year that is three Plan Years after the end of the Plan Year in which the deferral occurs.

5.2 **Other Benefits Take Precedence Over In-Service Distributions.** Should an event occur that triggers a benefit under ARTICLE 7, ARTICLE 8, ARTICLE 9, or ARTICLE 10, any Annual Deferral Amount, plus amounts credited or debited thereon, that is subject to an In-Service Distribution election under Section 5.1 shall not be paid in accordance with Section 5.1 but shall be paid in accordance with the other applicable Article.

5.3 **Withdrawal Payout/Election Cancellation for Unforeseeable Emergencies**.

(a) If the Participant experiences an Unforeseeable Emergency, the Participant may petition the Committee to receive a partial or full payout from the Plan. The Participant shall only receive a payout from the Plan to the extent such payout is deemed necessary by the Committee to satisfy the Participant’s Unforeseeable Emergency. If the Committee approves a payout from the Plan as permitted herein, the Participant’s deferral election for the remainder of that Pan Year shall be terminated and the Participant shall not be eligible to participate in the Plan for the immediately following Plan Year.

(b) The payout shall not exceed the lesser of (i) the portion of the Participant's vested Account Balance which is attributable to his or her Deferral Account, calculated as of the close of business on or around the date on which the amount becomes payable, as determined by the Committee in its sole discretion, or (ii) the amount necessary to satisfy the Unforeseeable Emergency. Notwithstanding the foregoing, a Participant may not receive a payout from the Plan to the extent that the Unforeseeable Emergency is or may be relieved (A) through reimbursement or compensation by insurance or otherwise, or (B) by liquidation of the Participant's assets (other than tax-qualified retirement assets), to the extent the liquidation of such assets would not itself cause severe financial hardship.

(c) If the Committee, in its sole discretion, approves a Participant's petition for payout, the Participant's deferrals under this Plan shall be cancelled for the remainder of the Plan Year as of the date of such approval and the Participant shall receive a payout from the Plan within sixty (60) days of the date of such approval.

(d) Notwithstanding the foregoing, the Committee shall interpret all provisions relating to a payout due to an Unforeseeable Emergency and Election Cancellation under this Section 5.3 in a manner that is consistent with Section 409A.

ARTICLE 6
Distributions

6.1 **Benefit Distribution Date**. A Participant's Benefit Distribution Date shall be the earliest to occur of the following dates:

(a) The last day of the Plan Year in which the Participant Retires as provided in ARTICLE 7;

(b) The last business day of the Plan Year in which the Participant incurs a Cessation of Employment as provided in ARTICLE 8;

(c) The date the Participant dies;

(d) The date the Committee deems the Disabled Participant has terminated employment or Retired; or

(e) The date specified by the Participant for an In-Service Distribution as provided in Section 5.1.

6.2 **Limited Cashouts**. Notwithstanding the foregoing provisions of this Section 6.1, if a Participant's Account Balance, taking into account any other nonqualified deferred compensation that must be aggregated with this Plan pursuant to Section 409A; at the time of his or her Retirement or Cessation of Employment is not greater than the applicable dollar limit under Code Section 401(g)(1)(B) ($15,500 for the calendar year 2008), the Account Balance (applying the plan aggregation rules of Section 409A) shall be paid to the Participant in a lump sum payment on or before the later of: (i) December 31st of the calendar year in which the Participant Retires or incurs a Cessation of Service; or (ii) the 15th day of the third month following the Participant's Retirement or Cessation of Service. Upon the date of payment pursuant to this Section 6.1, the Participant shall have no further interest under the Plan or any similar deferred compensation arrangements, as defined under Code Section 409A and the regulations promulgated thereunder, with the Bank.

6.3 **Time of Distribution**. Distributions pursuant to this Plan shall be paid in accordance with ARTICLE 5, ARTICLE 7, ARTICLE 8, ARTICLE 9 or ARTICLE 10, provided that:

(a) Any distribution to be made in a lump sum shall be paid no later than sixty (60) days after the Participant’s Benefit Distribution Date;

(b) Any distributions to be made in annual installments shall commence no later than sixty (60) days after the Participant’s Benefit Distribution Date, and thereafter shall be made annually no later than sixty (60) days after each anniversary of the Participant’s Benefit Distribution Date;

(c) Notwithstanding the foregoing, if the Participant is a Specified Employee and the Benefit Distribution Date is determined pursuant to Section 6.1(a) or Section 6.1(b), then distribution of such Participant’s Accounts shall not be made or commence prior to the date six (6) months after such Benefit Distribution Date at which time the accumulated amounts owed to date shall be paid and then the remaining payments shall be paid as scheduled; and

(d) To the extent the Participant has a choice of distribution methods and the Participant does not make such election, then such Participant shall be deemed to have elected to receive his or her benefit in a lump sum.

6.4 **Change to Election Forms**. A Participant may delay the Benefit Distribution Date or change the form of payment of the Participant’s Account by submitting a new Election Form to the Committee in accordance with the following criteria:

(a) The election to modify the time or form of distribution shall have no effect until at least twelve (12) months after the date on which the new election is made;

(b) With respect to payments, other than as described in Section 5.3 (Unforeseeable Emergency), Section 9.2 (Disability) or Section 10.2 (death), the first payment pursuant to the modified election shall be delayed for a period of not less than five (5) years from the Participant’s originally scheduled Benefit Distribution Date; and

(c) With respect to payments described in Section 5.1 (In-Service Distribution), the new election may not be made less than twelve (12) months prior to the first scheduled payment under the Participant’s originally scheduled Benefit Distribution Date.

(d) Notwithstanding the foregoing, the Committee shall interpret all provisions relating to changing an election under this Section 6.4 in a manner that is consistent with Section 409A. To the extent the Committee determines such an election to be inconsistent with Section 409A, the election shall not be effective.

(e) Subject to subsection (c) above and the applicability of subsection (f) below, the Election Form most recently accepted by the Committee shall govern the payout of any benefit.

(f) In a manner that is consistent with Section 409A, during 2008 the Committee may solicit new Election Forms from participants in order for the Participants to change the method or timing of distributions of all amounts subject to Section 409A, provided such elections are solicited and properly made prior to December 31, 2008. In the event the Committee elects to solicit new Election Forms under this Section, the failure by the Participant to submit a complete and timely Election Form will result in the application of the default provisions of Section 6.3(d).

ARTICLE 7
Retirement Benefit

7.1 **Retirement Benefit**. A Participant who Retires shall receive, as a Retirement Benefit, his or her Account Balance, calculated as of the close of business on or around the Participant's Benefit Distribution Date, as determined by the Committee in its sole discretion.

7.2 **Payment of Retirement Benefit**. A Participant, in connection with each election to defer Annual Deferral Amounts, shall elect on an Election Form to receive the Retirement Benefit, subject to Section 6.2, in a lump sum or pursuant to an Annual Installment Method of up to ten (10) years. The Retirement Benefit shall be paid as provided in ARTICLE 6.

ARTICLE 8
Termination Benefit

8.1 **Termination Benefit**. A Participant who experiences a Cessation of Employment shall receive a Termination Benefit, which shall be equal to the Participant's Account Balance, calculated as of the close of business on or around the Participant's Benefit Distribution Date, as determined by the Committee in its sole discretion.

8.2 **Payment of Termination Benefit**. The Termination benefit shall be paid to the Participant in a lump sum.

ARTICLE 9
Disability Benefit

9.1 **Disability Benefit**. Upon a Participant's Disability and subsequent termination of employment prior to Retirement, the Participant shall receive a Disability Benefit, which shall be equal to the Participant's Account Balance, calculated as of the close of business on or around the Participant's Benefit Distribution Date.

9.2 **Payment of Disability Benefit**. A Disabled Participant shall receive his or her Disability benefit in a lump sum payment no later than sixty (60) days after the Participant’s Benefit Distribution Date. Notwithstanding the foregoing, if the Participant is eligible for Retirement as of his or her Benefit Distribution Date, the Participant is deemed to have Retired shall be paid in the same manner as if the Participant had instead Retired. The Disability Benefit shall be paid as provided in ARTICLE 6.

ARTICLE 10
Survivor Benefit

10.1 **Survivor Benefit**. If a Participant dies prior to the complete distribution of his or her Account Balance, the Participant's Beneficiary(ies) shall receive a Survivor Benefit which will be equal to the Participant's vested Account Balance, calculated as of the close of business on the first business day following the date of the Participant's death.

10.2 **Payment of Survivor Benefit**. The Survivor Benefit shall be paid to the Participant’s Beneficiary(ies) in a lump sum payment provided that the Committee has been provided with proof that is satisfactory to the Committee of the Participant’s death.

ARTICLE 11
Beneficiary Designation

11.1 **Beneficiary**. Each Participant shall have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan to a beneficiary upon the death of a Participant. The Beneficiary designated under this Plan may be the same as or different from the Beneficiary designation under any other plan of an Employer in which the Participant participates.

11.2 **Beneficiary Designation; Change of Beneficiary Designation**. A Participant shall designate his or her Beneficiary by completing and signing the Beneficiary Designation Form, and returning it to the Committee or its designated agent. A Participant shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. If the Participant designates someone other than his or her spouse as a Beneficiary, the Committee may, in its sole discretion, determine that spousal consent is required to be provided on a form designated by the Committee and subject to such requirements as the Committee shall determine. Upon the acceptance by the Committee of a new Beneficiary Designation Form, all Beneficiary Designation Forms previously filed shall be cancelled. The Committee shall be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.

11.3 **Acknowledgment.** No designation or change in designation of a Beneficiary shall be effective until received and acknowledged in writing by the Committee or its designated agent.

11.4 **No Beneficiary Designation**. If a Participant fails to designate a Beneficiary as provided in Sections 11.1, 11.2 and 11.3 above or, if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's designated Beneficiary shall be deemed to be his or her surviving spouse. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary shall be payable to the executor or personal representative of the Participant's estate.

11.5 **Doubt as to Beneficiary.** If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee shall have the right, exercisable in its discretion, to cause the Participant's Employer to withhold such payments until this matter is resolved to the Committee's satisfaction.

11.6 **Discharge of Obligations.** The payment of benefits under the Plan to a Beneficiary shall fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant, and that Participant's Plan Agreement shall terminate upon such full payment of benefits.

ARTICLE 12
Leave of Absence

12.1 **Paid Leave of Absence.** If a Participant is authorized by the Employer to take a paid leave of absence from the employment of the Employer, (i) the Participant shall continue to be considered eligible for the benefits provided in ARTICLE 3, ARTICLE 5, ARTICLE 7, ARTICLE 8, ARTICLE 9 or ARTICLE 10 in accordance with the provisions of those Articles, (ii) the Annual Deferral Amount shall continue to be withheld during such paid leave of absence in accordance with Section 3.2 (to the extent that any Base Salary, Bonus or LTIP Amount is being paid, and proportionately adjusted in the case that Base Salary, Bonus or LTIP Amount has been impacted by such leave of absence, as permitted under Section 409A), and (iii) the Participant shall not be deemed to have had a Cessation of Employment.

12.2 **Unpaid Leave of Absence.** If a Participant is authorized by the Participant's Employer to take an unpaid leave of absence from the employment of the Employer for any reason, such Participant shall continue to be eligible for the benefits provided in ARTICLE 3, ARTICLE 5, ARTICLE 7, ARTICLE 8, ARTICLE 9 or ARTICLE 10 in accordance with the provisions of those Articles and shall not be deemed to have had a Cessation of Employment. However, to the extent permitted under Section 409A, the Participant shall be excused from fulfilling his or her Annual Deferral Amount commitment that would otherwise have been withheld during the remainder of the Plan Year in which the unpaid leave of absence is taken. During the unpaid leave of absence, the Participant shall not be allowed to make any additional deferral elections. However, if the Participant returns to employment, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment and for every Plan Year thereafter while a Participant in the Plan; provided such deferral elections are otherwise allowed and an Election Form is delivered to and accepted by the Committee or its designee for each such election in accordance with Section 3.2 above.

ARTICLE 13
Termination, Amendment or Modification

13.1 **Termination**. Although the Employer anticipates that it will continue the Plan for an indefinite period of time, there is no guarantee that the Employer will continue the Plan or will not terminate the Plan at any time in the future.

(a) Plan Termination Generally. The Employer may unilaterally terminate this Plan at any time. Except as provided in Section 13.1(b), the termination of this Plan shall not cause a distribution of benefits under this Plan. Rather, upon such termination benefit distributions will be made at the earliest distribution event permitted under ARTICLE 5 or ARTICLE 6.

(b) Plan Terminations Under Section 409A. Notwithstanding anything to the contrary in Section 13.1(a), if the Employer terminates this Plan in the following circumstances:

(i) Within thirty (30) days before, or twelve (12) months after a Change in Control, provided that all distributions are made no later than twelve (12) months following such termination of the Plan and further provided that all the Employer's arrangements which are substantially similar to the Plan are terminated so the Participant and all participants in the similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of the termination of the arrangements;

(ii) Upon the Employer’s dissolution or with the approval of a bankruptcy court provided that the amounts deferred under the Plan are included in the Participant's gross income in the latest of (i) the calendar year in which the Plan terminates; (ii) the calendar year in which the amount is no longer subject to a substantial risk of forfeiture; or (iii) the first calendar year in which the distribution is administratively practical; or

(iii) Upon the Employer’s termination of this and all other account balance plans (as referenced in Section 409A of the Code or the regulations thereunder), provided that all distributions are made no earlier than twelve (12) months and no later than twenty-four (24) months following such termination, and the Employer does not adopt any new non-account balance plans for a minimum of five (5) years following the date of such termination; the Employer may distribute the Account Balances, determined as of the date of the termination of the Plan to the Participant, in a lump sum subject to the above terms.

13.2 **Amendment**.

(a) The Employer may, at any time, amend or modify the Plan in whole or in part by the action of its Board; *provided, however*, that: (i) no amendment or modification shall be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Termination of Employment as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification, (ii) no amendment or modification of this Section 13.2 or Section 14.2 of the Plan shall be effective, and (iii) no amendment or modification shall be made unless such amendment or modification complies with Section 409A. The amendment or modification of the Plan shall not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification; *provided*, *however*, that the Employer shall have the right to accelerate installment payments by paying the vested Account Balance in a lump sum or pursuant to an Annual Installment Method using fewer months (provided that the present value of all payments that will have been received by a Participant at any given point of time under the different payment schedule shall equal or exceed the present value of all payments that would have been received at that point in time under the original payment schedule).

(b) Notwithstanding any provisions of the Plan to the contrary, in the event that the Employer determines that any provision of the Plan may violate or otherwise not comply with Section 409A, the Employer may, without the consent of any Participant or Beneficiary: (i) adopt such amendments to the Plan and appropriate policies and procedures, including amendments and policies with retroactive effective dates, that the Employer determines necessary or appropriate to preserve the intended treatment of the Plan or the benefits provided by the Plan; and/or (ii) take such other actions as the Employer determines necessary or appropriate to comply with the requirements of Section 409A.

13.3 **Effect of Payment**. The full payment of the Participant’s vested Account Balance under ARTICLE 3, ARTICLE 7, ARTICLE 8, ARTICLE 9 or ARTICLE 10 of the Plan shall completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan and the Participant's Plan Agreement shall terminate.

ARTICLE 14
Administration

14.1 **Committee Duties**. Except as otherwise provided in this ARTICLE 14, this Plan shall be administered by the Compensation committee of the Employer, or such committee as the Board shall appoint. Members of the Committee may be Participants under this Plan. The Committee shall also have the discretion and authority to (i) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan, (ii) decide or resolve any and all questions including interpretations of this Plan, as may arise in connection with the Plan, and (iii) delegate such duties to individuals or other committees as it deems necessary. Any individual serving on the Committee who is a Participant shall not vote or act on any matter relating solely to himself or herself. When making a determination or calculation, the Committee shall be entitled to rely on information furnished by a Participant or the Bank.

14.2 **Administration Upon Change In Control**. For purposes of this Plan, the Committee shall be the "Administrator" at all times prior to the occurrence of a Change in Control. Within thirty (30) days following a Change in Control, an independent third party trustee shall be appointed under the Trust and at all times prior to the distribution of all Account Balances under the Plan, the Trust shall not be terminated or modified and an independent third party trustee shall be the trustee of the Trust.

14.3 **Agents**. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to the Employer.

14.4 **Binding Effect of Decisions**. The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in the Plan.

14.5 **Indemnity of Committee**. All Employers shall indemnify and hold harmless the members of the Committee, any Employer or Employee to whom the duties of the Committee may be delegated, and the Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, any such Employee or the Administrator.

14.6 **Employer Information**. To enable the Committee and/or Administrator to perform its functions, the Bank and each Employer shall supply full and timely information to the Committee and/or Administrator, as the case may be, on all matters relating to the compensation of its Participants, the date and circumstances of the Retirement, Disability, death or Cessation of Employment of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

ARTICLE 15
Other Benefits and Agreements

15.1 **Coordination with Other Benefits**. The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to such Participant under any other plan or program for employees of the Employer. The Plan shall supplement and shall not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 16
Claims Procedures

16.1 **Presentation of Claim**. Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within sixty (60) days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.

16.2 **Notification of Decision**. The Committee shall consider a Claimant's claim within a reasonable time, but no later than ninety (90) days after receiving the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial ninety (90) day period. In no event shall such extension exceed a period of ninety (90) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. The Committee shall notify the Claimant in writing:

(a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or

(b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:

(i) the specific reason(s) for the denial of the claim, or any part of it;

(ii) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;

(iii) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary;

(iv) an explanation of the claim review procedure set forth in Section 16.3 below; and

(v) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

16.3 **Review of a Denied Claim.** On or before sixty (60) days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. The Claimant (or the Claimant's duly authorized representative):

(a) may, upon request and free of charge, have reasonable access to, and copies of, all documents, records and other information relevant to the claim for benefits;

(b) may submit written comments or other documents; and/or

(c) may request a hearing, which the Committee, in its sole discretion, may grant.

16.4 **Decision on Review.** The Committee shall render its decision on review promptly, and no later than sixty (60) days after the Committee receives the Claimant's written request for a review of the denial of the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial sixty (60) day period. In no event shall such extension exceed a period of sixty (60) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. In rendering its decision, the Committee shall take into account all comments, documents, records and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

(a) specific reasons for the decision;

(b) specific reference(s) to the pertinent Plan provisions upon which the decision was based;

(c) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits; and

(d) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a).

16.5 **Disability Related Claims.** Notwithstanding the above-described claims procedure, if a claim involves a determination of whether the Participant is Disabled, certain time periods related to the claim review process are revised as described within this section. The ninety (90) day period for responding to an initial claim will be shortened to a forty-five (45) day period. If circumstances require the review period to be extended (up to thirty (30) days) the Claimant will be notified prior to the expiration of the forty-five (45) day period. The notice of any extension must describe the reason for the extension, explain the standards on which entitlement to benefits is based, list any unresolved issues, request any information that will assist in resolving the unresolved issues and provide you with an estimate of the date a decision is expected to be made. If additional information is needed, the Claimant will be afforded forty-five (45) days to provide the necessary information. If prior to the end of the initial thirty (30) day extension, the Committee determines that additional time is required (up to an additional thirty (30) days) due to circumstances beyond the Committee's control, the Committee will notify the Claimant prior to the expiration of the extension and explain the reason for the extension and the estimated response date. In addition, the sixty (60) day period to make an appeal, as described above, shall be extended to one hundred-eighty (180) days and the sixty (60) day period to respond to the appeal (initial or extended) will be forty-five (45) days.

16.6 **Legal Action.** A Claimant's compliance with the foregoing provisions of this Article 16 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

ARTICLE 17
Trust

17.1 **Establishment of the Trust.** The Employer shall establish a trust by a trust agreement with a third party, the trustee, (the "Trust"), and the Employer shall at least annually transfer over to the Trust such assets as the Employer determines, in its sole discretion, are necessary to provide, on a present value basis, for its respective future liabilities created with respect to the Annual Deferral Amounts for all periods prior to the transfer, as well as any debits and credits to the Participants' Account Balances for all periods prior to the transfer, taking into consideration the value of the assets in the trust at the time of the transfer.

17.2 **Interrelationship of the Plan and the Trust.** The provisions of the Plan and the Plan Agreement shall govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust shall govern the rights of the Employers, Participants and the creditors of the Employers to the assets transferred to the Trust. Each Employer shall at all times remain liable to carry out its obligations under the Plan.

17.3 **Distributions From the Trust.** Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution shall reduce the Employer's obligations under this Plan.

ARTICLE 18
Miscellaneous

18.1 **Status of Plan.** The Plan is intended to be a plan that is (a) not qualified within the meaning of Code Section 401(a); (b) "unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees" within the meaning of ERISA Sections 201(2), 301(a)(3) and 401(a)(1); and (c) compliant with Section 409A. The Plan shall be administered and interpreted to the extent possible in a manner consistent with that intent.

18.2 **Unsecured General Creditor.** Participants and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interests or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer's assets shall be, and remain, the general, unpledged unrestricted assets of the Employer. An Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

18.3 **Employer's Liability.** An Employer's liability for the payment of benefits shall be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer shall have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.

18.4 **Nonassignability.** Neither a Participant nor any other person shall have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate, alienate or convey in advance of actual receipt, the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure, attachment, garnishment or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency or be transferable to a spouse as a result of a property settlement or otherwise.

18.5 **Not a Contract of Employment.** The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between the Employer and the Participant. Such employment is hereby acknowledged to be an “at will” employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided in a written employment agreement. Nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of the Employer, as an Employee or to interfere with the right of the Employer to discipline or discharge the Participant at any time.

18.6 **Furnishing Information.** A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits hereunder, including but not limited to taking such physical examinations as the Committee may deem necessary.

18.7 **Terms.** Whenever any words are used herein in the masculine, they shall be construed as though they were in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

18.8 **Captions.** The captions of the articles, sections and paragraphs of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

18.9 **Governing Law**. Subject to ERISA, the provisions of this Plan shall be construed and interpreted according to the internal laws of the State of Indiana without regard to its conflicts of laws principles.

18.10 **Notice.** Any notice or filing required or permitted to be given to the Committee under this Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Lake City Bank
202 E. Center Street
Warsaw, Indiana 46580
Attn: Chief Financial Officer

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan shall be sufficient if in writing and hand-delivered, or sent by mail, to the last known address of the Participant.

18.11 **Successors.** The provisions of this Plan shall bind and inure to the benefit of the Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.

18.12 **Spouse's Interest.** The interest in the benefits hereunder of a spouse of a Participant who has predeceased the Participant shall automatically pass to the Participant and shall not be transferable by such spouse in any manner, including but not limited to such spouse's will, nor shall such interest pass under the laws of intestate succession.

18.13 **Validity.** In case any provision of this Plan shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal or invalid provision had never been inserted herein.

18.14 **Incompetent.** If the Committee determines in its discretion that a benefit under this Plan is to be paid to a minor, a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Committee may direct payment of such benefit to the guardian, legal representative or person having the care and custody of such minor, incompetent or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit shall be a payment for the account of the Participant and the Participant's Beneficiary, as the case may be, and shall be a complete discharge of any liability under the Plan for such payment amount.

18.15 **Court Order.** The Committee is authorized to make any payments directed by court order in any action in which the Plan or the Committee has been named as a party. In addition, if a court determines that a spouse or former spouse of a Participant has an interest in the Participant’s benefits under the Plan in the form of a qualified domestic relations order, as defined in Section 414(p)(1)(B) of the Code, in connection with a property settlement or otherwise, the Committee, in its sole discretion, shall have the right, notwithstanding any election made by a Participant, to immediately distribute the spouse's or former spouse's interest in the Participant’s benefits under the Plan to that spouse or former spouse.

18.16 **Insurance.** The Employers, on their own behalf or on behalf of the trustee of the Trust, and, in their sole discretion, may apply for and procure insurance on the life of the Participant, in such amounts and in such forms as the Trust may choose. Any election to participate in the Plan is deemed a consent by the Participant to be insured by and Employer. The Employers or the trustee of the Trust, as the case may be, shall be the sole owner and beneficiary of any such insurance. The Participant shall have no interest whatsoever in any such policy or policies, and at the request of the Employers shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Employers have applied for insurance.

18.17 **Legal Fees**. In the event of any dispute under the Plan, the party which is successful on the merits pursuant to a legal judgment, arbitration or settlement shall be entitled to recover from the other party all of the prevailing party's costs of counsel, fees, and expenses incurred.

IN WITNESS WHEREOF, the Bank has signed this Plan document as of December 9, 2008.

LAKE CITY BANK, an Indiana state bank

By: /s/ Michael L. Kubacki
Michael L. Kubacki
Title: President and CEO

Exhibit 10.8

Schedule of Board Fees

The Compensation Committee and Board of Directors of Lakeland Financial Corporation adopted the following fee schedule effective January 1, 2009:

Annual Director Retainer:	$ 15,000	
Annual Audit Committee Chairman Retainer:	$ 19,000	
Annual Lead Director and Compensation Committee Chairman Retainer:	$ 19,000	
Annual Governance Committee Chairman Retainer:	$ 16,000	
Board Meeting Fee:	$ 800	per meeting
Committee Meeting Fee:	$ 700	per meeting

Exhibit 21

Subsidiaries

1. Lake City Bank, Warsaw, Indiana, a banking corporation organized under the laws of the State of Indiana.

2. Lakeland Statutory Trust II, a statutory business trust formed under Connecticut law.

3. LCB Investments II, Inc., a subsidiary of Lake City Bank incorporated in Nevada to manage a portion of the Bank’s investment portfolio.

4. LCB Funding, Inc., a subsidiary of LCB Investments II, Inc. incorporated under the laws of Maryland to operate as a real estate investment trust.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Forms S-8 (333-48402, 333-50135, 333-130396, 333-135863 and 333-150900) of Lakeland Financial Corporation of our report, dated February 7, 2009, with respect to the consolidated financial statements of Lakeland Financial Corporation and the effectiveness of internal control over financial reporting, which report appears in this Annual Report on Form 10-K of Lakeland Financial Corporation for the year ended December 31, 2008.

/s/ Crowe Horwath LLP
Crowe Horwath LLP

South Bend, Indiana
March 6, 2009

Exhibit 31.1

I, Michael L. Kubacki, Chief Executive Officer of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Lakeland Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2009

/s/ Michael L. Kubacki
Michael L. Kubacki
Chief Financial Officer

Exhibit 31.2

I, David M. Findlay, Chief Financial Officer of the Company, certify that:

1. I have reviewed this annual report on Form 10-K of Lakeland Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize, and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2009

/s/ David M. Findlay
David M. Findlay
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lakeland Financial Corporation (the “Company”) on Form 10-K for the period ending December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the “Report), I, Michael L. Kubacki, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Annual Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Michael L. Kubacki
Michael L. Kubacki
Chief Executive Officer
March 6, 2009

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Lakeland Financial Corporation (the "Company") on Form 10-K for the period ending December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report), I, David M. Findlay, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Annual Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Annual Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David M. Findlay
David M. Findlay
Chief Financial Officer
March 6, 2009